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SNC-LAVALIN  
2003 ANNUAL REPORT

SATISF ACTION



SNC-Lavalin designs, develops and delivers leading engineering, construction, infrastructure and ownership solutions worldwide. We listen carefully to our clients and the communities they serve. We work to better understand cultures, needs, and issues. Carefully, consistently, we satisfy clients and meet expectations with global versatility and world-class technical expertise.

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INFORMATION

AT THE CORE OF ALL  
WE DO, BEHIND EACH  
AND EVERY ACTION,

we strive for satisfaction—for our clients, employees and our host communities. Commitments to health, safety and the environment, on project sites or in the office, go hand-in-hand with our goal to consistently and reliably provide innovative, quality solutions in all aspects of our operations worldwide.

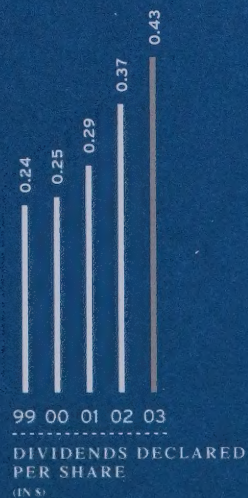
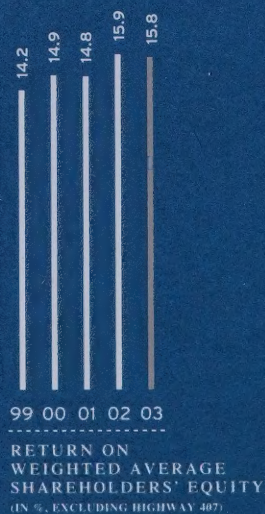
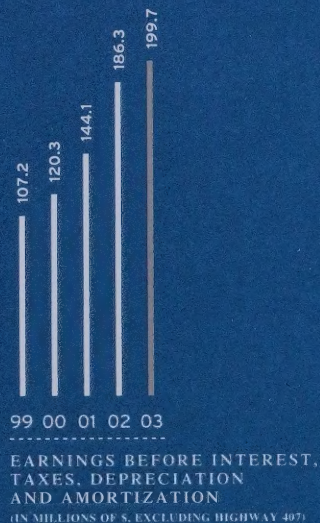
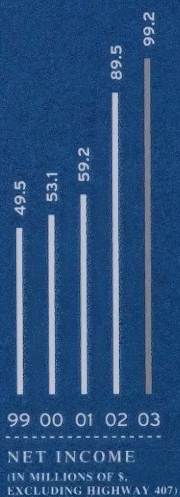
CHEMICALS AND PETROLEUM  
POWER  
INFRASTRUCTURE  
ENVIRONMENT

MINING AND METALLURGY  
FACILITIES AND OPERATIONS MANAGEMENT  
DEFENCE  
AGRIFOOD

INDUSTRIAL AND MANUFACTURING  
PHARMACEUTICALS AND BIOTECHNOLOGY  
PROJECT FINANCING



## Financial Highlights





## Financial Highlights

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE INFORMATION AND RATIOS)

INCOME STATEMENT HIGHLIGHTS		2003	2002
FOR YEARS ENDED DECEMBER 31			
<b>REVENUES</b>			
Services	\$	888,824	\$ 777,221
Packages		1,463,677	1,769,305
Concessions		912,409	885,124
	\$	<u>3,264,910</u>	<u>\$ 3,431,650</u>
<b>EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)</b>			
Excluding Highway 407	\$	199,734	\$ 186,286
From Highway 407		40,132	196,831
	\$	<u>239,866</u>	<u>\$ 383,117</u>
<b>NET INCOME (LOSS)</b>			
Excluding Highway 407	\$	99,185	\$ 89,511
From Highway 407		(12,657)	113,019
	\$	<u>86,528</u>	<u>\$ 202,530</u>
BALANCE SHEET HIGHLIGHTS			
AT DECEMBER 31			
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	\$	495,800	\$ 491,580
RECOURSE LONG-TERM DEBT	\$	104,154	\$ 104,028
SHAREHOLDERS' EQUITY	\$	658,309	\$ 597,114
SHARE INFORMATION			
FOR YEARS ENDED DECEMBER 31			
<b>DILUTED EARNINGS PER SHARE</b>			
Excluding Highway 407	\$	1.94	\$ 1.75
From Highway 407		(0.25)	2.20
	\$	<u>1.69</u>	<u>\$ 3.95</u>
<b>DIVIDENDS DECLARED PER SHARE</b>	\$	<u>0.43</u>	<u>\$ 0.37</u>
ROASE			
FOR YEARS ENDED DECEMBER 31			
<b>RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY (ROASE)</b>			
Excluding Highway 407		15.8 %	15.9 %
From Highway 407		(2.0) %	20.1 %
		<u>13.8 %</u>	<u>36.0 %</u>
BACKLOG			
AT DECEMBER 31			
SERVICES	\$	567,700	\$ 416,200
PACKAGES		1,749,500	1,715,400
CONCESSIONS		1,855,700	2,037,800
	\$	<u>4,172,900</u>	<u>\$ 4,169,400</u>



**SOLUTIONS THAT SPAN THE GLOBE — WE EMPLOY THOUSANDS OF PEOPLE REPRESENTING 80 NATIONALITIES AND WORKING IN SOME 100 COUNTRIES WORLDWIDE. WE ALL EQUATE SUCCESS WITH THE OPPORTUNITY TO REPEAT-PERFORM FOR OUR CLIENTS. MANY OF OUR CLIENTS ARE REPEAT CUSTOMERS, AND WE HAVE WORKED WITH SOME OF THEM IN SEVERAL DIFFERENT SITUATIONS OR CAPACITIES.**

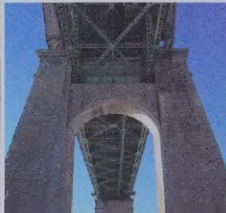
#### CHEMICALS AND PETROLEUM

#### POWER

#### INFRASTRUCTURE

#### ENVIRONMENT

#### MINING AND METALLURGY



Our expertise includes oil sands and heavy oil development, onshore and offshore oil and gas, pipelines, petroleum refining, gas storage, petrochemicals, biochemicals and fertilizers. In all these areas, we have demonstrated our ability to overcome technical challenges and build innovative projects in an environmentally responsible manner. As each project progresses, we consult our clients to ensure we meet their needs to their full satisfaction, including the most stringent health and safety requirements. We have the flexibility to carry out lump-sum turnkey and build-own-operate, as well as cost-plus reimbursable contracts anywhere in the world.

Our Power group has over 90 years of experience in more than 120 countries. We offer the complete range of services required to design, build, operate, own, finance and manage all types of power facilities. Our power projects represent an installed capacity of nearly 240,000 MW, more than 90,000 km of transmission and distribution lines and some 1,500 substations. In 2003 alone, we successfully commissioned 5,000 MW in thermal power, 1,400 MW in nuclear power and 300 MW in hydro power, a total of almost 7,000 MW worldwide.

We design and build infrastructure projects worldwide. These include water treatment and distribution facilities, hospitals, airports, light and heavy rail transit systems, roads, bridges and flood control systems. Our technical expertise in this sector is complemented by our global procurement network and our ability to arrange financing in a variety of countries. This combination of skills is also well-suited to build-own-operate contracts and concessions.

We have 40 years of experience helping clients meet existing regulatory requirements and prepare for pending legislation. Over that time, we have built up a comprehensive environment team that offers the full spectrum of environmental services. Our specialists include engineers, environmental planners, chemists, agronomists, biologists, ecologists, geologists, hydrologists, hydrogeologists, geographers, cartographers, oceanographers, meteorologists, social scientists, economists and experts in toxicology, risk assessment and remedial planning.

We have worked on many of the world's largest mining and metallurgy projects in aluminum, copper, gold, magnesium, nickel, zinc, diamonds and industrial minerals. Our success is based on our technical expertise, project management capabilities and close, long-term relationships with our clients. We have built our reputation on listening to our clients and catering to their particular needs. Today, we provide all engineering, procurement, construction and management services in the fields of mining, mineral processing, pyrometallurgy, hydrometallurgy and electrometallurgy.



## FACILITIES AND OPERATIONS MANAGEMENT

## DEFENCE

## INVESTMENTS

## AGRIFOOD

## INDUSTRIAL AND MANUFACTURING

## PHARMACEUTICALS AND BIOTECHNOLOGY

## PROJECT FINANCING



Our Facilities and Operations Management group is made up of SNC-Lavalin ProFac and its subsidiaries, SNC-Lavalin Nexacor, SNC-Lavalin Defence Programs and SNC-Lavalin ProFac Services. SNC-Lavalin ProFac is a leading provider of operations, logistics and management services in Canada. Our portfolio includes approximately eight million square metres of space in over 6,500 buildings, including many that are mission-critical, plus communications towers, ships and remote military camps. We have a proven record of improving service, optimizing efficiency and reducing costs. We are ISO 9001 certified.

Our Defence group produces an extensive line of products for the military and law enforcement agencies. These include conventional ammunition, as well as SIMUNITION® training ammunition and its associated training systems. We also produce extruded propellants for military and commercial products, and provide consulting and research & development services. In addition, we manage the Proof and Experimental Test Establishment munitions testing site in Nicolet, Quebec, on behalf of the Canadian Department of National Defence.

We are actively pursuing concessions both inside and outside Canada. Our international experience in project management and structuring financial arrangements makes us an ideal choice for this kind of venture. Our current portfolio consists primarily of infrastructure-type concessions, including our all-electronic, open-access toll road, Highway 407.

### AGRIFOOD

We have been providing comprehensive management expertise in agrifood process engineering for over 50 years. Our services range from food processing to packaging, handling, distribution and storage facilities. We place special emphasis on food safety and traceability in our designs.

### INDUSTRIAL AND MANUFACTURING

Our services in this sector range from process development and design to plant commissioning and start-up. We also offer complete services in the instrumentation and automation of industrial processes across all our sectors of activity. We have specialized expertise in areas such as material handling, dust control, machinery design, filling and packaging lines, cleanroom design and validation.

### PHARMACEUTICALS AND BIOTECHNOLOGY

We have over 40 years of experience in this sector. Our expertise includes conceptual design, process and facility engineering, construction and commissioning, as well as validation and regulatory compliance. We have offices in North America and Europe, giving us in-depth knowledge of these two very different markets.

### PROJECT FINANCING

SNC-Lavalin Capital is an accredited International Financial Centre. Its team of finance professionals structures financing and provides financial evaluations for our projects and for third party clients. They understand technical requirements and source the appropriate financing from export credit agencies, major commercial banks and institutional lenders, building financing solutions precisely suited to complex projects in Canada and worldwide. SNC-Lavalin Capital was instrumental in supporting several of our key new contracts in 2003.





MEMBERS OF THE OFFICE  
OF THE PRESIDENT  
(LEFT TO RIGHT)

FIRST ROW  
MARYLYNNE CAMPBELL  
NORMAND MORIN  
PIERRE ANCTIL  
PIERRE DUHAIME  
SAMI BÉBAWI

SECOND ROW  
KRISH KRISHNAMOORTHY  
JACQUES LAMARRE  
KLAUS TRIENDL  
MICHAEL NOVAK  
GILLES LARAMÉE



## Message to Shareholders

**CONTINUED PROFITABILITY  
AND FINANCIAL STRENGTH**

**EXPANDED  
SERVICE OFFERING**

**QUARTERLY DIVIDEND PER SHARE  
INCREASED FROM \$0.10 TO \$0.13**

2003 was another good year for SNC-Lavalin. Our net income excluding Highway 407 rose, marking our 12<sup>th</sup> consecutive year of increased profitability. We maintained a firm backlog, a strong balance sheet, steady cash flow generation and a return on shareholders' equity above our objective of the long-term Canada Bond yield plus six percent. On the operations side, we continued to build on our core expertise and expand our presence in promising markets.

### CONSISTENT PERFORMANCE

Let's start with the financials. Excluding Highway 407, our net income rose by 10.8% to \$99.2 million. Our consolidated net income was lower in 2003 than it was in 2002—\$86.5 million compared to \$202.5 million. As you may recall, the 2002 figure included gains totalling \$129.9 million from the disposal of a portion of our investment in Highway 407 and a dilution gain.

Our consolidated revenues for 2003 were \$3.3 billion, down only slightly from \$3.4 billion in 2002, despite the fact that our 2002 revenues included a substantial contribution from thermal power contracts. We were able to achieve a similar level of activity in 2003 primarily because of our diverse revenue base. While revenues from the Power sector were lower in 2003, those from the Chemicals and Petroleum and Mining and Metallurgy sectors were significantly higher.

Our consolidated cash position at the end of 2003 was \$495.8 million, and we generated \$190.0 million in cash flow from operations (compared to \$491.6 million and \$162.7 million, respectively, in 2002). This financial strength gives us the flexibility to take advantage of select concession and acquisition opportunities as they arise—a key part of our ongoing growth strategy.

We are positive about the potential growth of our current operations, and confident we will continue receiving dividends from our concession investments. Based on these two sources of cash and our strong financial position, we are pleased to announce that we have increased the quarterly dividend paid to shareholders from \$0.10 per share to \$0.13 per share.

### STRATEGIC GROWTH

Our growth strategy is founded on:

- **Our people.** We hire people with outstanding technical and professional skills, and encourage them to build on those skills throughout their careers.
- **Our diversity of expertise.** We consistently build on our core expertise to enhance and enlarge our service offering as markets evolve.
- **Our financial strength.** We maintain a solid balance sheet, which allows us to pursue select concession and acquisition opportunities.
- **Our international presence.** We use our international network to maintain continuous relationships with our clients, and identify new market opportunities.
- **Our operating efficiencies.** We maintain a high level of efficiency in all our operations.

In 2003, we moved ahead in all these areas.

### EXPANDED EXPERTISE

We have been increasing our presence in France for many years. In 2003, we merged our different French subsidiaries into a single entity, SNC-Lavalin France, to increase the efficiency of our operations. Included in the merger were our new acquisitions, Trouvin based near Paris and Fimatec's offices in France and Monaco. Our new employees bring us additional expertise in the design of technical equipment and utilities used in hospitals, hotels, industrial facilities and other types of infrastructure.



## Message to Shareholders

We now have a workforce of 420 employees at SNC-Lavalin France in 21 cities throughout the country, plus offices in Monte Carlo, Monaco and Budapest, Hungary.

We also increased our presence in the United States in 2003 with the acquisition of Texas-based GDS Engineers. This purchase complements our existing expertise, and has made us one of the top maintenance and upgrade engineering firms in the US oil and gas sector.

### POSITIVE OUTLOOK

The additional thermal power expertise we acquired in 2002 is showing satisfying results. In 2003, we were awarded thermal power contracts in Algeria, and began work on plants in Ireland and New Mexico.

We expect continued growth in the Power sector. Transmission and distribution networks and energy control systems (ECS) have to be upgraded and expanded to meet mounting power requirements—as evidenced by the blackout in north-eastern North America in 2003. We have a highly specialized team of transmission and ECS specialists to take on this work. We also have valuable experience managing large power transmission networks through our AltaLink and Murraylink concessions in Alberta and Australia.

In the Mining and Metallurgy sector, metal prices have gone up causing significant growth. Similarly, high crude oil and natural gas prices are keeping the oil and gas market brisk, as is the trend towards clean fuels projects. Water shortages and contamination concerns continue to drive the global demand for water supply and treatment projects in the Infrastructure and Environment sector. Stricter regulations in the Agrifood and Pharmaceutical sectors, and environmental concerns in the Industrial sector, are creating opportunities for upgrade and compliance projects.

In the Facilities and Operations Management sector, we are proud to be providing significant support services to the Canadian Armed Forces' peacekeeping missions in Afghanistan and Bosnia-Herzegovina. SNC-Lavalin ProFac's combined experience in organizational logistics and facilities and operations management makes us uniquely qualified to provide support services in this challenging environment.

### SOCIAL RESPONSIBILITY

As part of our responsibility to all our stakeholders, we require everyone involved on our projects to meet our health, safety

and environmental standards, and to uphold our high standards of quality. We regularly review our policies and procedures, and are continually working towards our ultimate goal of zero harm.

### CORPORATE GOVERNANCE

Good corporate governance is an essential part of our overall performance. We are pleased to report that we placed seventh out of 207 Canadian firms in the *Globe and Mail's* annual Corporate Governance survey in 2003. We also won the Canadian Institute of Chartered Accountants' *Corporate Reporting Award*, in the Industrials/Energy category, for excellence in financial and corporate reporting.

In other developments, the Board of Directors took steps to improve our governance practices even further:

- It was decided that stock options would no longer be granted to non-employee Directors.
- The Board of Directors' Corporate Governance and Human Resources Committee was divided into two distinct committees.
- A Health, Safety and Environment Committee was established at the Board level.

### AWARDS

Our employees were honoured with a number of awards in 2003, and it gives us great pride to list some of them here:

- The Chicago-based Precast/Prestressed Concrete Institute selected the Jacques-Cartier Bridge rehabilitation project from among 138 entries as the "Best Rehabilitated Bridge" of the year. It also garnered a "Léonard" award for client satisfaction from the Quebec Association of Consulting Engineers (AICQ), and an "Armatura" prize from the Quebec Institute of Reinforced Steel for superior project engineering in reinforced concrete.
- The Canadian Council of Professional Engineers' Association awarded us and our partners the "National Award for Engineering Achievement" for the A154 Dike at the Diavik Diamond Mine in the Canadian Arctic. The Award honours outstanding engineering achievements that have a significant positive impact on society, industry or engineering.
- A distinguished panel of engineers selected the Mozal 1 Aluminum Smelter in Mozambique, and the Arrow Lakes Generating Station in British Columbia from among 52 other projects as great "technical and managerial achievements" at the Canadian Consulting Engineering Awards dinner.



## Message to Shareholders

- AICQ presented us with a second “Léonard” award for our work on the Saint-Ours-sur-Richelieu fish migration pass. The award highlights projects that clients have deemed particularly successful.
- SNC-Lavalin ProFac was honoured with two national “TOBY” (The Office Building of the Year) awards at the Building Owners and Managers Association (BOMA), and with five regional awards by the Toronto chapter of BOMA. It also won its fifth “Supplier Award of Excellence” for its high quality customer service to Canada Post.

### ACKNOWLEDGEMENTS

Our employees are the main contributors to our success. We are proud to work with such a skilled and dedicated team and we thank them for the excellent job they are doing.

Our thanks to Robert Leboeuf, former Executive Vice-President in charge of SNC Technologies and member of the Office of the President, who retired in 2003.

We extend our thanks to our Board of Directors, including two Directors who are retiring in May 2004, Jacqueline Boutet and Neil Webber, for their valued counsel and direction.

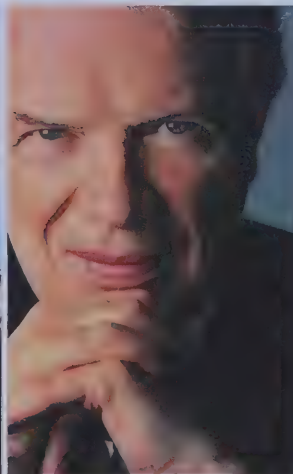
We welcomed a new Director to the Board in 2003. Mr. Claude Mongeau, Executive Vice-President and Chief Financial Officer at Canadian National.

We would like to express our gratitude to our clients for their continued trust in our ability to carry out their projects. Their satisfaction is the foundation of our growth.

And to our shareholders, our sincere thanks for your confidence and continuing support.

**JACQUES LAMARRE, ENG.**  
PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

**JOHN E. CLEGHORN, O.C., F.C.A.**  
CHAIRMAN OF THE BOARD





## HEALTH, SAFETY AND ENVIRONMENT (HSE)

IT WAS ANOTHER IMPORTANT YEAR FOR HSE AT SNC-LAVALIN. WE REGULARLY REVIEW OUR HSE POLICIES TO STRENGTHEN AND ENHANCE THEIR MANDATES, AND TO ENSURE THEY MEET THE EVER-CHANGING REQUIREMENTS OF TODAY'S CLIENT AND LEGISLATION. THIS PROACTIVE APPROACH HAS STARTED TO PRODUCE SIGNIFICANT BENEFITS, AND SERVES AS A REMINDER THAT WE NEED TO CONTINUE TO IMPROVE. WE HAVE AN EXCELLENT HSE RECORD, BUT ALSO RECOGNIZE WE CANNOT REST ON OUR LAURELS. WE CONTINUE TO WORK TO ENSURE OUR PROJECTS MEET CANADIAN ENVIRONMENTAL STANDARDS, AS WELL AS THOSE OF INSTITUTIONS SUCH AS THE WORLD BANK AND THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT. WE RECOGNIZE THE CHALLENGES OF ACHIEVING A ZERO HARM WORK ENVIRONMENT.



"ZERO HARM"  
reflects our  
commitment to  
eliminate all  
occupational injuries  
and illnesses, and  
to prevent adverse  
environmental and  
social impacts on  
the communities  
in which we work.



- A strengthened HSE structure Company-wide ensures clearer and more regular incident-reporting responsibilities, as well as increased opportunities to deal with incidents or problem areas quickly and efficiently. This begins with monthly reporting by HSE officers from each business unit to the corporate VP for HSE, who in turn reports directly to the CEO, to senior management at its monthly meetings of the Office of the President, and to quarterly meetings of the newly established HSE Committee of the Board of Directors.
- The corporate VP heads an HSE Committee, which is responsible for fostering our zero harm culture, and is doing so in a variety of ways. These include enhancing our project management capabilities and effectiveness through a stronger emphasis on leadership and HSE training, an updated and revised process for gathering and reporting safety statistics, and ensuring that our well-established

HSE practices are integrated into the business units in a standardized fashion.

- SNC-Lavalin's safety performance is best reflected in a number of milestones achieved by individual business units for millions of hours worked without, or almost without, a classified or lost-time injury. Leading the way among many examples in 2003 is the team effort which recently completed the Sincor Upstream Facilities Project in Venezuela with only one lost-time injury in five years and 5,400,000 hours. The combined team of SNC-Lavalin, Murray & Roberts and BHP Billiton worked on the Mozal Smelter for 3,000,000 hours at the Mozambique site without a classified injury, while the Petro-Canada/Wild Rose Joint Venture team working from our Edmonton, Alberta offices on the Sulphur in Gasoline project deserves kudos for reaching 1,000,000 hours without a lost-time injury.



"Our culture places value on the way people think and work on the job. As a result, HSE is a living part of SNC-Lavalin's activities."

ANGUS A. BRUNEAU  
CHAIR, BOARD OF DIRECTORS'  
COMMITTEE ON HSE



#### SOME SPECIFIC ENVIRONMENTAL AND COMMUNICATIONS RELATED INITIATIVES IN SUPPORT OF A ZERO HARM CULTURE

- Our commitment to good environmental practices is based on our conviction that sustainable development can only be achieved through the respectful use of natural resources—and is reflected in the day-to-day environment-related work we carry out on projects worldwide. We reaffirmed that commitment in 2003 by issuing a new, standardized Site Environmental Management Manual which provides common guidelines to all business units and construction sites in order to maximize, measure and thus improve environmental performance.
- In keeping with the "Zero Harm" philosophy developed on the Mozal 1 & 2 aluminum smelter projects in Mozambique, SNC-Lavalin and its South African partner introduced new measures to deal with the re-use, recycling, disposal and measurement of construction waste at the Hillside 3

aluminum smelter project in South Africa. As a result of these measures, construction waste was separated for the first time into different categories, and 33.6% of waste generated during the construction of Hillside 3 was re-used or recycled—setting a benchmark for the South African construction industry.

- For the first time ever, our project coordinators on approximately 9,000 worksites worldwide are now able to save time, and "trees", by filling out their annual environmental compliance forms electronically.
- A new Home Office Safety Plan was launched to ensure clear and efficient action in response to an emergency or incident.

"Creating a protective, zero harm culture reflects our business strategy of becoming a recognized leader in any area we undertake—we, and our clients, expect no less."

JACQUES LAMARRE, PRESIDENT AND CEO, SNC-LAVALIN GROUP INC.

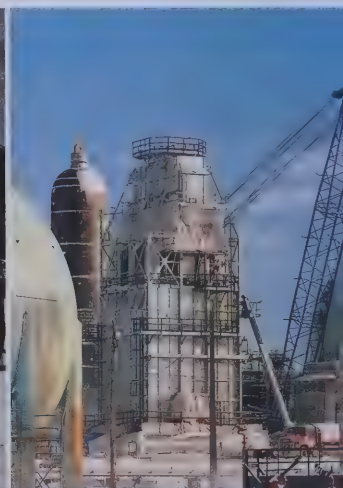


## CHEMICALS AND PETROLEUM

WE ANTICIPATE GROWTH IN THIS SECTOR AS CRUDE OIL AND NATURAL GAS PRICES REMAIN HIGH. WE ARE WORKING ON A NUMBER OF NATURAL GAS PROJECTS IN THE MIDDLE EAST, AND EXPECT TO SEE MORE OPPORTUNITIES WORLDWIDE. OUR STRONG PERFORMANCE ON CLEAN FUELS PROJECTS IN CANADA IS LEADING TO SIMILAR CONTRACTS THERE AND IN THE US. IN OIL SANDS, WE REMAIN ACTIVE IN BITUMEN PRODUCTION AND ARE WORKING TO INCREASE OUR SHARE IN THE STEAM ASSISTED GRAVITY DRAINAGE (SAGD) HEAVY OIL AND OFFSHORE OIL AND GAS MARKETS. ON THE PETROCHEMICALS SIDE, THE MARKET IS SHOWING SIGNS OF RECOVERY, MOST NOTABLY IN THE AREA OF NITROGEN FERTILIZERS.



SINCOR UPSTREAM FACILITIES  
VENEZUELA



PETRO-CANADA REFINERY  
FEED CONVERSION PROJECT  
CANADA

### SOME PROJECTS OF NOTE

- We are carrying out an engineering, procurement and construction (EPC) contract for Burrup Fertilizers' world-scale liquid anhydrous ammonia plant near Karratha, 3,000 km north of Perth, Australia. The design capacity is 2,200 tonnes of ammonia per day. The complex will include a captive 20 MW power plant, a closed circuit seawater/freshwater cooling system, a demineralization water plant, an effluent treatment plant and all related utilities and offsite facilities.
- In November 2003, first gas was achieved from the Alma Platform, off the east coast of Canada. This is the first of two Sable Tier II wellhead platforms we designed for ExxonMobil

Canada Properties Inc. with a joint venture partner. The contract covers the detailed engineering of two wellhead platforms, their sub-structures and in-field pipelines. The detailed engineering of the second platform, "South Venture", is nearing completion and construction is underway.

- In Oman, we are building the Saih Nihayda Gas Plant with a local partner for Petroleum Development Oman. Our procurement network is a key element on this project, as equipment is being purchased from Asia, North America and Europe to ensure the best quality/price ratio. Once construction is finished, we will provide first year operational support and training at the plant.





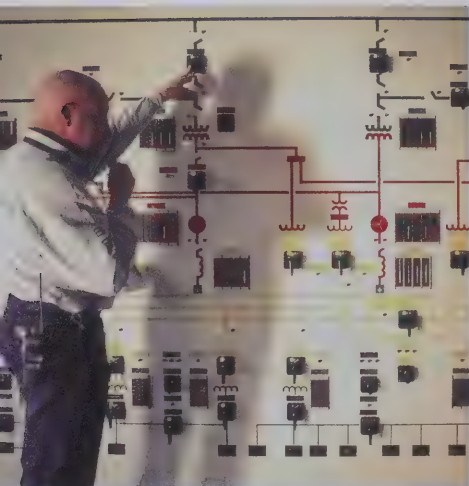
SULPHURIC ACID PLANT  
TURKEY

SABLE TIER II OFFSHORE PROJECT  
CANADA

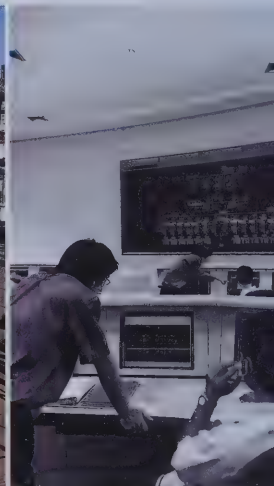
- Work is progressing very well at Petrovietnam's ammonia/urea plant in Phu My, Vietnam where SNC-Lavalin Europe is providing project management and control services.
- We are working with a joint venture partner on a Sulphur in Gasoline (SIG) project, a fast-track SIG modification project and other related infrastructure projects for Petro-Canada in Edmonton. To date, we have completed over one million hours of work at the Edmonton refinery without a lost-time accident.
- We finished construction of a 500,000 tonne/yr purified terephthalic acid (PTA) plant in the east end of Montreal. The plant was also commissioned in 2003, and is now in production. A nearby 350,000 tonne/yr p-xylene unit, which has been shut down since 1998, will be reopened to supply the new plant.
- We are nearly finished building a 750 tonne/day pyrite burning, double absorption sulphuric acid plant for Eti Holding in Turkey. The project is being carried out on a lump-sum, turnkey basis, and includes a pyrite roaster, a waste heat boiler, a gas cleaning system, power generation, a Heat Recovery Steam Generator (HRS) and seawater cooling and effluent treatment systems.
- We are nearing completion on low-sulphur gasoline (LSG) projects for Petro-Canada in Edmonton and Montreal, and have completed a number of LSG projects for Imperial Oil in Sarnia, Ontario. Both long-time clients of SNC-Lavalin, they have since each awarded us low-sulphur diesel projects to help them meet the next phase of compliance required by Canada's clean fuels legislation.

## POWER

THE ADDITIONAL THERMAL POWER EXPERTISE WE GAINED IN 2002 HAS LED TO PROJECTS IN CANADA AND OVERSEAS, WHILE HIGH FUEL PRICES HAVE BROUGHT RENEWED INTEREST IN HYDRO PROJECTS. WE ANTICIPATE A HIGHER DEMAND FOR ENERGY CONTROL SYSTEMS AND TRANSMISSION AND DISTRIBUTION PROJECTS FOLLOWING THE BLACKOUT IN NORTH-EASTERN NORTH AMERICA IN 2003. OVERSEAS, THE NEED FOR REFORM AND RESTRUCTURING PROJECTS CONTINUES TO PRESENT OPPORTUNITIES; WE CURRENTLY HAVE ONGOING PROJECTS IN 25 COUNTRIES. WE ARE ALSO SEEING A TREND TOWARDS POWER GRID INTERCONNECTION PROJECTS BOTH WITHIN AND BETWEEN COUNTRIES.



GILA BEND COMBINED CYCLE POWER PLANT  
USA



POWER DISTRIBUTION  
MANAGEMENT SYSTEM  
THAILAND

### SOME PROJECTS OF NOTE

- In Algeria, Shariket Kahraba Skikda awarded us two contracts, one to execute all engineering, procurement and construction (EPC) for an 825 MW combined cycle thermal power plant, and the other to operate and maintain the plant for 12 years. The plant will increase the country's current production capacity by over 10%. We structured over \$500 million in financing for the plant's construction through EXIM Bank in the US and Export Development Canada.
- We and a partner completed work on the 30 MW Beeton hydro power plant in Newfoundland and Labrador, Canada, in 14 months. We finished this turnkey, fixed-price contract two months ahead of schedule with no lost-time accidents. This was achieved despite the unexpected challenge of an unstable laminated limestone foundation.
- Two Qinshan nuclear power plant units are now operational in China. Both were finished ahead of schedule, setting world records. Internationally accepted safety standards were strictly employed throughout the process by Canatom NPM Inc. (a joint venture in which we hold a 61.25% interest) and its partner, Atomic Energy of Canada Limited.
- As part of a consortium, we are designing and building the 120 MW Brilliant hydro power facility expansion in British Columbia, Canada. Our design met stringent environmental standards partly by proposing a cleaner approach to waste material disposal, and by specifying an alternative access route to the site, which eliminated the need for a new bridge. Thus we reduced costs as well as the impact on the fish population and the river's flow.





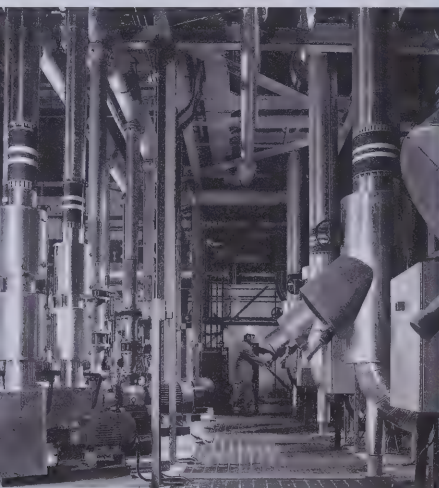
BRILLIANT HYDROELECTRIC  
POWER FACILITY EXPANSION  
CANADA

JOSEPHBURG SUBSTATION AND  
TRANSMISSION LINE  
CANADA

- We completed the Gila River Power Station project in Arizona and the Union Power Station project in Arkansas in 2003. Both are 2,200 MW combined cycle thermal power plants, the largest plants of their kind ever built in North America.
- The first and second units of the Chamera II hydro plant in India went into commercial operation seven months ahead of schedule. The dam's spillway, equipped with four of the largest radial gates in the world, was finished in less than 48 months, despite flash flooding.
- We completed all EPC services at the Josephburg 240/138 kV high-voltage substation in Alberta in only nine months, five months ahead of schedule. To meet stringent system outage requirements, we developed a custom-designed rigging apparatus and a procedure for working on energized wires. This allowed us to suspend a 240 kV energized line while installing a new double circuit transmission tower between two existing towers.
- We provided EPC services at the EnCana Hussar transmission line and substation, adding a new 42 km, 138 kV line and a 16 kV substation. A multi-million dollar gas storage development depended on this project's timely completion—a requirement we exceeded by cutting the construction time down to 12 weeks, from the 18 originally scheduled, despite unforeseen delays.
- Our Distribution Management System project in Thailand, the largest project of its kind ever awarded, reached a significant milestone by passing the Factory Acceptance Test.

## INFRASTRUCTURE

WATER PROJECTS ARE IN HIGH DEMAND. NORTH AFRICA HAS LONG BEEN A KEY MARKET FOR US IN THIS SECTOR, AND WE EXTENDED OUR ACTIVITIES INTO LATIN AMERICA IN 2003. IN CANADA AND EUROPE, THE DEMAND IS TO UPGRADE AND EXPAND EXISTING MUNICIPAL WATER SYSTEMS AS WELL AS OTHER TYPES OF INFRASTRUCTURE SUCH AS HIGHWAYS, MASS TRANSIT SYSTEMS, HOSPITALS AND PRISONS. THERE IS ALSO A WORLDWIDE TREND TOWARDS CONCESSIONS IN THE WATER, HIGHWAY AND AIRPORT SECTORS. WE HAVE VALUABLE EXPERIENCE IN SUCH VENTURES, AND ARE ACTIVELY PURSUING NEW OPPORTUNITIES.



TABREED COOLING PLANT  
UNITED ARAB EMIRATES



SEA TO SKY HIGHWAY  
CANADA



### SOME PROJECTS OF NOTE

- We completed the revamp and start-up at the Sarir pre-stressed concrete cylinder pipe (PCCP) facility in Libya. We have started producing the first of 15,000 water conveyance pipes, each one 7.5 m long, 25 cm thick and 4 m in diameter. We will operate and maintain the plant, and produce the remaining pipes, over a period of about 20 months.
- In Algeria, we completed a complex urgent water project for the city of Skikda without a single lost-time accident within a very tight schedule. We accomplished this despite an earthquake and delays caused by floods. A similar project carried out for the city of Algiers was completed in only six months, again with no lost-time accidents.
- We are working on a number of hotels for La Société des Bains de Mer in Monaco. Notably, we completed the first phase of renovations on the prestigious Hermitage Hotel in only seven months, and began construction on the 330-room Larvotto Palace hotel on a man-made peninsula. Here, SNC-Lavalin France has devised a heating and air conditioning system that uses a heat pump run on seawater, greatly increasing operating and cost efficiencies.
- In Toronto, we are carrying out detailed design and construction administration for the rehabilitation of several bridges, including the 55-year-old Bloor Street Bridge over Mount Pleasant Road, and the 80-year-old St. Clair Avenue Bridge over the Balfour Ravine. Our mandate is to extend their service life and enhance their safety features.





SARIR PCCP PROJECT  
LIBYA

SAA URGENT WATER DIVERSION PROJECT  
ALGERIA

- In India, we are providing detailed design, construction supervision and contract management services on a highway improvement/construction program for the National Highways Authority of India. We are widening and upgrading 950 km of roads and bridges along four principal highways. Included in the design are a 2.3 km bridge over the Gautami River and a 1.5 km bridge across the Ganga River. Once finished, the high-speed circuit will link Delhi, Mumbai, Chennai via Bangalore and Kolkata.

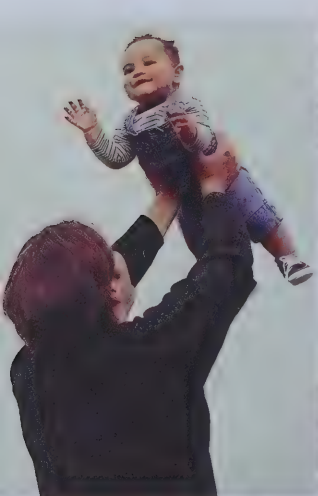
- We completed a feasibility study, cost estimates and a workable concept for a 12 km, four-lane suspension bridge in the Saguenay region of Quebec, Canada. The superstructure will be located 100 metres above a river, which, itself, is over 100 metres deep. Once built, it will be the longest bridge of its kind in North America.

- We completed engineering, procurement and construction (EPC) work on two 10,000 ton district cooling plants for Tabreed in the United Arab Emirates. The plants are in the middle of the desert, and the chilled water is distributed through more than 30 km of underground insulated steel piping. Both plants were constructed without any lost-time accidents.

- In August 2003, the Kuala Lumpur Monorail went into revenue service. Our scope of services on the project included design, procurement, installation, testing, and commissioning of the traction power supply and distribution system. We hired 50 local employees to install the guideway equipment, all of whom were trained and certified in safe construction methods before work began.

## ENVIRONMENT

THE MARKET FOR ENVIRONMENTAL IMPACT STUDIES IS GROWING AS MORE INTERNATIONAL FINANCIAL INSTITUTIONS CONSIDER THEM A PREREQUISITE FOR PROJECT FINANCING. WE MAINTAIN A STEADY FLOW OF WORK ON COMPLIANCE PROJECTS FOR GREENHOUSE GAS REGULATIONS. INSTITUTIONAL STRENGTHENING CONTRACTS ARE ALSO ON THE RISE IN THE AREAS OF RURAL DEVELOPMENT AND MINING, PARTICULARLY IN AFRICA AND LATIN AMERICA. WORLDWIDE, PROJECTS RELATED TO WATER, SITE DECONTAMINATION AND AGRICULTURAL CLEAN-UP WERE IN HIGH DEMAND IN 2003, AND WE EXPECT THIS TREND TO CONTINUE WELL INTO THE FUTURE.



ENVIRONMENTAL REMEDIATION OF THE FORMER  
ANGUS LOCOMOTIVE REPAIR SHOP  
CANADA



ENVIRONMENTAL IMPACT STUDY  
AND RESETTLEMENT PLAN  
DEMOCRATIC REPUBLIC OF CONGO

### SOME PROJECTS OF NOTE

- We completed an environmental impact study and resettlement plan for an electrical transmission line in the Democratic Republic of Congo for the World Bank. We found an alternate route for the line, which affected significantly fewer settlements and proved shorter and cheaper to build. A thorough consultation process with villagers, village heads, and government authorities ensured everyone's full cooperation. A follow-up plan will evaluate their quality of life and make adjustments where necessary.
- We are using a combination of our environmental and mining and metallurgy expertise to decommission the Polaris zinc-lead mine in Canada's High Arctic. Here, we had to calculate the exact amount of fuel the project would consume in advance because the extreme cold permits only one fuel sealift per year. Local Inuit workers have been trained, and are employed on the project as equipment operators and maintenance personnel.

- Guyana is the world's first country to adopt environmental codes of conduct for small-scale miners. We were selected to provide basic environmental guidelines, and to train independent gold and diamond miners to conduct environmental impact studies, manage waste and plan for emergencies. We have since been invited to assist in talks between the miners and the Guyanese Government to ensure all parties agree to a feasible and sustainable program.
- Our Aboriginal and Northern Affairs group works with indigenous communities across Canada and, increasingly, overseas. They address social responsibility issues such as capacity-building, sustainable development and the environment. For example, we are preparing a capital framework plan for several Kaska communities in Canada to help them identify their communities' needs and integrate them into regional economic development strategies.





POLARIS MINE DECOMMISSIONING  
CANADA

SAINT-OURS-SUR-RICHELIEU  
FISH MIGRATION PASS  
CANADA

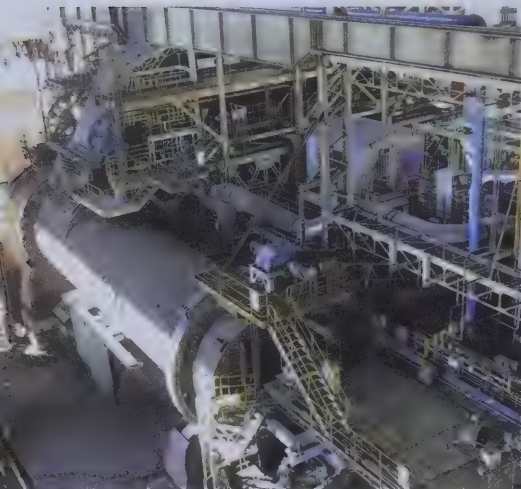
- We completed design and construction of the fully automated Saint-Ours-sur-Richelieu fish migration pass in Quebec, Canada. A number of divisions participated in this project to provide the necessary expertise in power, dams, geotechnology, civil engineering, biology and hydrography.
- We completed a feasibility study for the World Bank. Our mandate was to determine whether it is practical and economical to recover associated gas from oil production platforms off the coast of Cameroon, and use it to fuel power plants, feed refineries or produce liquid petroleum gas. The study required a multidisciplinary team with expertise in the Kyoto Protocol and greenhouse gas reduction, chemicals and petroleum, power, financing and offshore projects. The study yielded optimistic results and, if the project goes ahead, it will significantly reduce greenhouse gas emissions in the area.

- In Newfoundland and Labrador, Canada, the communities of Conception Bay South, Paradise and Stephenville do not have sufficient resources to maintain traditional sewage treatment plants. We determined that, by combining marine treatment and the use of diffused outfall with a certain level of basic land-based treatment, we could design a practical and affordable alternative. Our plant designs are specifically suited to each community's needs and fully compliant with regulations governing the receiving marine environment's water usage.

- In Asia, we are helping Chinese and Vietnamese government agencies strengthen their environmental management capabilities and develop environmental programs. These are both long-term, country-wide initiatives to encourage cleaner production practices and reduce current levels of pollution.

## MINING AND METALLURGY

THE PRICE OF BASE METALS AND COMMODITIES SUCH AS NICKEL, COPPER AND URANIUM INCREASED SIGNIFICANTLY, AND GOLD PRICES STRENGTHENED IN 2003. WE EXPECT THAT THE CONTINUING GLOBAL ECONOMIC RECOVERY WILL BOOST PRICES FURTHER IN 2004. TIGHT SUPPLIES AND STRONG DEMAND FOR COPPER, ALUMINUM, ALUMINA AND NICKEL ARE ALSO CAUSING ACCELERATED ACTIVITY IN THIS SECTOR. CHINA, IN PARTICULAR, IS A HIGH GROWTH AREA. IT HAS SURPASSED THE US AND JAPAN AS THE WORLD'S LARGEST COPPER CONSUMER, AND ITS STAINLESS STEEL INDUSTRY HAS HELPED INCREASE THE MARKET VALUE OF NICKEL.



NORANDA'S ALTO NORTE COPPER SMELTER  
CHILE



SKORPION ZINC MINE AND REFINERY  
NAMIBIA



### SOME PROJECTS OF NOTE

- In Sept-Îles, Quebec, Canada, we are leading a joint venture providing full engineering, procurement and construction management (EPCM) services for the expansion of the Alouette aluminum smelter. The expanded smelter will have the capacity to produce more than 550,000 tonnes of aluminum per year, making it the largest aluminum smelter in the Americas.
- Mozal 2 and Hillside 3 are major EPCM aluminum smelter expansion projects in southern Africa. Both achieved their first metal milestones in 2003, each six months ahead of schedule and under budget. These projects have become industry models for their attention to health and safety issues and their consideration for the long-term welfare of the local communities and the environment.
- We are providing full EPCM services to Inco for a new nickel mine, concentrator and related facilities complex at Voisey's Bay in Newfoundland and Labrador, Canada. The project's sub-arctic location imposes schedule constraints and presents unique environmental concerns. An independent environmental board, made up of federal, provincial and Aboriginal representatives, carefully reviews permits as they are issued.
- In the Namibian desert, we completed EPCM work on the Skorpion zinc mine and refinery for Anglo American. The work was completed under budget and on schedule despite severe weather, including a flash flood and the largest sandstorm the area had ever experienced. Skorpion is the first greenfield zinc refinery in the world to use direct leaching, SX-EW technology on a zinc oxide ore.





VELADERO GOLD PROJECT  
ARGENTINA

ALOUETTE ALUMINUM SMELTER EXPANSION  
CANADA

■ Barrick Gold is a long-time client, and we are pleased to be associated with the development program they are undertaking in South America. In this capacity, we are providing basic engineering services on the Pascua-Lama gold project in Chile, and full EPCM services on two other sites, the Veladero heap leach gold mine project in Argentina, and the Alto Chicama gold project in Peru.

■ We were awarded a joint venture contract for engineering, planning and related activities as part of the Phase 2 review of Inco's Goro Nickel project in New Caledonia in the South Pacific.

■ In the alumina sector, we are leading a joint venture which is undertaking a definitive feasibility study to expand the capacity of Alcan's Gove alumina refinery in Australia's Northern Territory.

■ In two separate joint ventures, we have begun work on bankable feasibility studies for SUAL's Komi aluminum project in northern Russia. One study is for a greenfield alumina refinery and the expansion of an existing bauxite mine. The other is for an aluminum smelter.

■ Engineering is nearing completion and construction is well underway at Codelco's Chuquibambilla copper electro-refinery in Chile, where we and a partner are providing EPCM services for its modernization and automation. It is the largest copper electro-refinery in the world, producing almost 700,000 tonnes of copper cathodes per year.

■ Our offices in Al-Khobar, Saudi Arabia and Montreal, Canada are providing EPCM services for the Al Amar gold mine. The Saudi Arabian mining company, Ma'aden, also awarded us a joint venture feasibility study for the development of a phosphate mine and the downstream production of phosphate-ammonium fertilizer.

## FACILITIES AND OPERATIONS MANAGEMENT

THERE IS A GROWING DEMAND FOR PUBLIC-PRIVATE PARTNERSHIPS INCLUDING OPERATIONS AND MAINTENANCE (O&M). THESE NORMALLY INCLUDE LONG-TERM CONTRACTS RANGING FROM FIVE TO OVER 20 YEARS. IN CANADA AND EUROPE, GOVERNMENTS ARE INCREASINGLY DISPOSED TO OUTSOURCING THEIR O&M ACTIVITIES TO PRIVATE SECTOR COMPANIES. THE US MARKET IS ALSO IN A PERIOD OF RAPID GROWTH. A DEMAND FOR O&M CONTRACTS OUTSIDE THE BUILDING SECTOR, NOTABLY FOR CO-GENERATION POWER PLANTS AND LIGHT RAIL TRANSIT, IS CREATING INTERESTING OPPORTUNITIES WORLDWIDE. IN 2004, WE WILL DRAW ON OUR CORE EXPERTISE IN OPERATIONS, MAINTENANCE AND LOGISTICS MANAGEMENT TO EXPAND INTO THE INDUSTRIAL AND FEDERAL DEFENCE SECTORS.



CANADIAN BROADCASTING  
CORPORATION  
CANADA



CAMP JULIEN  
AFGHANISTAN

### NOTABLE DEVELOPMENTS

- SNC-Lavalin ProFac manages the Community Mailbox Program for Canada Post. There are approximately 380,000 units located in over 250,000 locations across Canada. Canada Post presented us with the Supplier Award of Excellence for this program, which recognizes customer service excellence in the areas of heightened service levels, understanding client and customer needs and reducing costs. This is the fifth time SNC-Lavalin ProFac has won an award since it assumed responsibility for the Program in 1992.
- We were honoured with two National TOBY ("The Office Building of the Year") awards at the Building Owners and Managers Association (BOMA) Conference and Exposition in October 2003. The award in the renovation category went to the Bell Canada Centre in Toronto, and the award for

management of a building over 300,000 m<sup>2</sup> went to the Canadian Broadcasting Corporation's (CBC) Broadcast Centre, also in Toronto. These buildings are now eligible for the International Awards selection ceremony, to be held in Toronto in June 2004.

- The Toronto Chapter of BOMA presented us with five regional industry awards in 2003, four Certificates of Excellence for outstanding building management, and an Earth Award for environmental friendliness in the building industry.
- Our mission-critical capabilities were put to the test during the 2003 power blackout in Ontario. Our strengths in technical and management processes were a contributing factor in maintaining the continuity of CBC's and Bell Canada's operations during the outage.





QUEBEC SCHOOL OF PUBLIC ADMINISTRATION  
CANADA

CANADA POST COMMUNITY  
MAILBOX PROGRAM  
CANADA

■ Work progressed well on our SNC-PAE joint venture for the Canadian Forces Contractor Augmentation Program (CANCAP). This five-year contract is established to provide support services to the Canadian military during deployment on international operations.

SNC-PAE's mandate for CANCAP:

- In Afghanistan, under extreme conditions, we built the camp facilities for the Canadian Army in Kabul. The main camp covers an area of about 4.8 km<sup>2</sup> and includes a water purification system, underground sewage system, complex power grid and power generating plant.
- We now provide ongoing support for over 2,000 Canadian soldiers in Afghanistan, including satellite communications, IT hardware and software, food and accommodations,

laundry, vehicle maintenance, fire fighting, construction and engineering services and material management.

- We have assumed a large support role for the Canadian Forces currently deployed in Bosnia-Herzegovina, and are providing a range of services at five locations. The largest camp supports 1,100 Canadian Forces military and communications personnel.
- We supported a major spring training exercise at the Canadian Army base in Wainright, Alberta. The only large-scale Canadian military exercise in the last 10 years, *Operation Resolute Warrior* involved more than 4,600 soldiers from across the country. Our personnel provided engineering, food, accommodation, fuel, medical and transportation services.

## DEFENCE

IN 2003, FOR THE FIRST TIME EVER, OUR INTERNATIONAL SALES SURPASSED OUR DOMESTIC SALES. THE CANADIAN DEPARTMENT OF NATIONAL DEFENCE REMAINS OUR MAIN CLIENT, AND WE RETAIN OUR STATUS AS ITS PREFERRED MUNITIONS SUPPLIER, AS WELL AS OUR STRATEGIC POSITION IN CANADA'S DEFENCE PROGRAM. THE CONTINUED WEAKNESS OF THE US DOLLAR DECREASES OUR COMPETITIVENESS IN THE US MARKET FOR THE SHORT TERM. HOWEVER, WE ARE TAKING ACTIONS, INCLUDING A DETAILED REVIEW OF OUR BUSINESS PROCESSES, TO ENHANCE OUR PRODUCTIVITY AND OUR POSITION IN THE WORLD'S LARGEST DEFENCE MARKET. SNC TECHNOLOGIES (SNC TEC) AND ITS SUBSIDIARY, EXPRO TECHNOLOGIES (EXPRO TEC), EACH HAS A RANGE OF PRODUCTS LARGE ENOUGH TO OFFER ONE-STOP SHOPPING, AND THE ABILITY TO HANDLE LARGE- AND SMALL-QUANTITY PRODUCTION RUNS—RARITIES IN THE DEFENCE INDUSTRY.



KINEMATIC LOADING MACHINE

SNC TEC HEADQUARTERS  
CANADA

METROLOGY LABORATORY

### NOTABLE DEVELOPMENTS

- International markets have been brisk. We were again awarded new contracts by the US Department of Defence, by Australian Defence Industries, and by the Direction générale de l'armement of France. Australia is now our third largest market after Canada and the US. We also signed a long-term supply agreement with UK-based BAE Systems. All options under our multi-year contracts were exercised by our clients in the Netherlands, Belgium and New Zealand, to name just a few.
- Our SIMUNITION® FX® marking cartridges provide unique training capabilities. Law enforcement officers and military personnel can use their own service weapons in training, making

the exercises more realistic and, thus, better preparing them for active duty. In 2003, we launched the 5.56 mm FX® training system, and we continue to receive orders for SIMUNITION® training systems for other calibres and other types of equipment.

- SNC TEC's ISO 9001-2000 certification was renewed in 2003, while EXPRO TEC's certification was upgraded from ISO 9001-1994 to ISO 9001-2000. The ISO 9000 series of standards ensures that internationally accepted quality management principles are incorporated into every step of a company's production process. The end result is a higher quality product and better customer service.



SAINT-AUGUSTIN PLANT  
CANADALE CARDEUR PLANT  
CANADA

COMPUTERIZED DIGITAL CONTROL MACHINE

- EXPRO TEC is one of the world's few producers of extruded propellant that meets the standards of the automobile airbag industry.
- EXPRO TEC is also the only company qualified to produce M30A2 propellant used in the US Navy's 155 mm Modular Artillery Charges.
- Research and development is an important part of our contribution to the Canadian defence industrial base. With the support of the federal Technology Partnerships Canada program, we are developing a new line of non-toxic, reduced-energy training cartridges.

- Upon acquiring EXPRO TEC in 2001, we launched a modernization and cost-reduction program to increase its efficiencies. In 2003, we decentralized our heating system and replaced an old gas furnace with smaller, energy-efficient electric boilers. We also centralized all support and administrative services, which had been dispersed over 25 different buildings, thus increasing efficiencies and control.

## ADDITIONAL SECTORS

**AGRIFOOD** – WITH NUMEROUS OFFICES IN EUROPE AND NORTH AMERICA, WE HAVE THE RESOURCES TO MEET THE REQUIREMENTS OF OUR MULTINATIONAL CLIENTS, AND THE LOCAL PRESENCE ESSENTIAL TO ADDRESS NICHE MARKETS. SNC-LAVALIN FRANCE IS THE TOP ENGINEERING AND DESIGN FIRM IN THE AGRIFOOD SECTOR IN FRANCE, AND A LEADER IN EUROPE. WE ARE ACTIVELY REINFORCING OUR PRESENCE THROUGHOUT EUROPE UNDER THE BANNER SNC-LAVALIN AGRO.

**INDUSTRIAL AND MANUFACTURING** – IN NORTH AMERICA, THERE IS A TREND TOWARDS IMPROVED ENERGY AND PRODUCTION EFFICIENCY, ENVIRONMENT-RELATED PLANT UPGRADES, RELOCATIONS AND RETROFITS. WE MAINTAIN A STEADY FLOW OF WORK IN THESE AREAS, MUCH OF IT FROM CONTINUING SERVICES AGREEMENTS WITH LONG-TIME CLIENTS. OUR 2002 ACQUISITIONS OF BOPLAN IN FRANCE AND CERTAIN ASSETS OF EICHLEAY IN PITTSBURGH, USA, HAVE ENHANCED OUR EXPERTISE AND LED TO NEW PROSPECTS IN A NUMBER OF FIELDS.

**PHARMACEUTICALS AND BIOTECHNOLOGY** – OUR HISTORY OF LONG-TERM RELATIONSHIPS WITH THE INDUSTRY'S LEADING COMPANIES REFLECTS THE LEVEL OF OUR EXPERTISE AND THE QUALITY OF OUR WORK. THE VALIDATION EXPERTISE WE GAINED THROUGH OUR ACQUISITION OF BELGIUM-BASED INTERNATIONAL CLEANROOM CONTROL ENGINEERING IN 2002 ROUNDED OUT OUR SERVICE OFFERING AND CONTINUES TO SERVE US WELL. STRINGENT US FDA REGULATIONS AND HIGHER BIOSAFETY LEVEL REQUIREMENTS ARE CREATING A MARKET FOR UPGRADE PROJECTS WORLDWIDE.

### AGRIFOOD – SOME PROJECTS OF NOTE

- We completed a fully automated grape press centre for Bollinger, one of the world's most prestigious producers of champagne. An already tight deadline for the September grape harvest was moved up by a month due to exceptionally good weather. We completed the work on time to the client's full satisfaction.
- We provided full turnkey services at Carrefour's Prodirest produce warehouse and distribution centre in Toulouse, France. The layout was designed with as few structural supports as possible to allow for optimum mobility and safety.
- We completed engineering and project management work on Maxi Poultry's fast-food chicken plant in Saint-Lin, Quebec, Canada. Plans had to be extremely detailed and accurate to accommodate the client's request that all pipes, wires and duct systems be sealed within double walls. This design makes cleaning and maintenance easier, and reduces the risk of contamination.

### INDUSTRIAL AND MANUFACTURING – SOME PROJECTS OF NOTE

- We are providing construction management services for an Airbus A380 assembly plant in Saint-Nazaire, France, the second such plant we will have built for Airbus since 2002. This plant will have workstations on three levels. Its loading dock will be 24 m high, and equipped with a rolling bridge capable of transporting a 65 tonne fuselage directly to the work area.
- We are providing project management services for PSA Peugeot-Citroën Motor Group's automobile plant construction in Slovakia. Once completed, the 280,000 m<sup>2</sup> plant is expected to employ 3,500 people and produce about 300,000 Peugeots and Citroëns annually.
- In North America, in addition to various plant upgrade projects, we relocated Procter & Gamble's Oil of Olay production line to Belleville, Ontario in Canada. We accomplished the move with a service interruption of under 20 days, and with minimal disruption to its overall operation.





NOVOCOL DENTAL ANAESTHETIC  
MANUFACTURING FACILITY  
CANADA

BOLLINGER GRAPE PRESS CENTRE  
FRANCE

AIRBUS A380 ASSEMBLY PLANT  
FRANCE

#### PHARMACEUTICALS AND BIOTECHNOLOGY - SOME PROJECTS OF NOTE

- We have completed most engineering, project control, procurement, automation and validation work on a large-scale expansion (LSE) project at DSM Biologics' facility in Montreal, Canada. In 2003, as work continued on the LSE project, DSM awarded us a new contract to bring its existing facility into compliance with the latest regulations.
- We are expanding Novocol's dental anaesthetic facility in Cambridge, Ontario, Canada. We also worked with Novocol on the renovation of its terminal sterilization suite at the same plant, and are now augmenting its filling capacity.
- Engineering, validation and site supervision work is going well at GlaxoSmithKline's new live vaccine production facility in Wavre, Belgium. The building is being constructed in accordance with both European and American Good Manufacturing Practices, and to Level 3 Bio Safety standards. We are also providing engineering, procurement, construction management and validation services for a new quality control laboratory at the facility. Once built, it will be the most sophisticated lab of its kind in Europe.

## HIGHWAY 407

HIGHWAY 407 EXPRESS TOLL ROUTE (407 ETR) IS THE WORLD'S FIRST ALL-ELECTRONIC, OPEN-ACCESS TOLL ROAD. IT IS LOCATED JUST NORTH OF TORONTO, CANADA, AND COVERS A DISTANCE OF 108 KM. IN 1999, WE AND OUR PARTNERS ACQUIRED THE RIGHT TO OPERATE 407 ETR UNDER A 99-YEAR LEASE FROM THE GOVERNMENT OF ONTARIO.



### NOTABLE DEVELOPMENTS

- In 2003, 407 ETR enhanced its billing, accounting, automated attendant and website systems to increase their transaction capability and make them more user-friendly. It also reorganized its Customer Service Operations area by introducing a Customer Care Team to handle complaints requiring special attention, a Quality Listening team to monitor customer calls and a Customer Advocacy group.
- Our Infrastructure group in Ontario is designing a \$30 million expansion project between Highways 401 and 10, which will add a third lane in each direction.
- Traffic levels continue to rise and, on October 10, 2003, 384,040 trips were recorded on Highway 407, representing the highest single day traffic mark since tolling began. About 76% of those using the Highway have transponders specially fitted for the toll road's identification systems, indicating a strong base of frequent repeat customers.
- The eastbound Highway 407 ramp to Woodbine Avenue, the southbound Woodbine Avenue ramp to westbound Highway 407, and the eastbound Highway 407 ramp to Highway 403 near Oakville, were all commissioned and opened to traffic in the fourth quarter of 2003.





- In June 2003, the additional lane widening 407 ETR in each direction between Highways 400 and 427 was officially opened. Upon completion, 407 ETR recorded an improvement in traffic flow.

- In December 2003, 407 ETR announced a one-cent rate increase per kilometre for light vehicles, effective February 1, 2004. The new rate will help fund lane expansions and other improvements required due to increased traffic levels.

- The newly elected provincial government in Ontario is currently disputing 407 ETR's contractual right to raise toll rates without governmental permission. 407 ETR believes this dispute has no merit, and expects it will be resolved without a material impact on its business or financial position.

- As with most highway concessions, we do not anticipate an accounting profit from our investment in Highway 407 for the initial years of the 99-year concession agreement. However, it generates cash flow and continues to pay dividends.

## INVESTMENTS

OUR INVESTMENTS INCLUDE OUR INTERESTS IN THE VENTURES BELOW. IN EACH CASE, ALL EQUITY REQUIREMENTS HAVE BEEN MADE, AND DEBT FINANCING IS NON-RECOURSE TO SNC-LAVALIN.



RAIWIND THERMAL POWER PLANT  
PAKISTAN



MALTA INTERNATIONAL AIRPORT  
MALTA



ALTALINK TRANSMISSION SYSTEM  
CANADA



GAZMONT POWER PLANT  
CANADA

### ALTALINK, CANADA

We hold a 50% ownership in the AltaLink consortium, which officially acquired TransAlta's electrical transmission business in Alberta, Canada in 2002. These assets represent almost 60% of Alberta's electrical transmission facilities, including some 12,000 km of transmission lines and over 250 substations. AltaLink operates on a rate-regulated basis, and is Canada's first independent transmission enterprise.

### GAZMONT POWER PLANT, CANADA

We hold a 50% ownership in the 25 MW Gazmont thermal power station. The station has been in operation since 1996. It reduces greenhouse gas emissions by about 1.1 million tonnes a year by capturing harmful methane gas from a nearby landfill and using it as fuel.

### MALTA INTERNATIONAL AIRPORT, MALTA

As a member of the Malta Mediterranean Link consortium, we hold an indirect 15.5% interest in Malta International Airport p.l.c., the concessionaire of Malta International Airport, under a 65-year agreement.

### MURRAYLINK, AUSTRALIA

We have a 50% equity investment in the Murraylink project in Australia. Murraylink connects the power grids of South Australia and Victoria, and is the longest underground electrical transmission system in the world. The 180 km, 200 MW line is now operational on a rate-regulated basis, which provides a more stable, predictable revenue flow than did its previous unregulated status.

### RAIWIND THERMAL POWER PLANT, PAKISTAN

We indirectly own 33.7% of Southern Electric Power Company Limited (SEPCOL) which, in turn, owns the 117 MW Raiwind thermal power plant, along with a 30-year power purchase agreement. The plant has been operational since 1999.

### VATRY INTERNATIONAL AIRPORT, FRANCE

In France, we hold a 23.3% share in Société d'exploitation de Vatry-Europort (SEVE), which has been managing and operating the Vatry cargo airport under a 20-year term agreement since its opening in 2000. We provided project management services for the initial infrastructure work in 1998. Vatry is one of the largest cargo airports in France, with excellent road and rail links.

### WEST END DAM, UNITED STATES

We hold a 21% ownership in the 4.5 MW West End Dam power station in Carthage, New York. The facility was commissioned in 1985 and has since generated an estimated net average of 22,264,070 kWh of electricity per year. We and our partners sell the electricity to the Niagara Mohawk Power Corporation under a 30-year supply agreement.



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## Management's Discussion and Analysis

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### 1. HIGHLIGHTS / MAJOR EVENTS OF 2003

#### INCREASE IN 2003 NET INCOME EXCLUDING HIGHWAY 407

- Excluding Highway 407 net income increased by 10.8% to \$99.2 million in 2003 from \$89.5 million in 2002.
- Consolidated net income decreased to \$86.5 million in 2003 from \$202.5 million in 2002. The 2002 results included a net after-tax gain from the disposal of a portion of the investment in Highway 407 and from a dilution gain, totalling \$129.9 million.

#### CONSOLIDATED REVENUES IN 2003

- Consolidated revenues were \$3.3 billion in 2003 compared with consolidated revenues of \$3.4 billion in 2002.

#### STRONG BALANCE SHEET POSITION

- The Company's balance sheet position as at December 31, 2003 remained very solid, with a strong cash position, as well as a recourse debt-to-capital ratio of 14:86, well within the Company's threshold set at 30:70.
- Consolidated cash, cash equivalents and short-term investments remained in line with last year, totalling \$495.8 million at the end of 2003 compared with \$491.6 million at the end of 2002.

#### BACKLOG AS AT DECEMBER 31, 2003

- Consolidated revenue backlog at the end of 2003 was \$4.2 billion, equal to the previous year.

#### DIVIDEND INCREASE

- Dividend per share for the fourth quarter of 2003 increased from \$0.10 to \$0.13.

#### ACQUISITIONS IN UNITED STATES AND FRANCE

- In January 2003, SNC-Lavalin acquired Texas-based GDS Engineers, Inc., which specializes in the refining, chemical and petrochemical industries.
- In June 2003, SNC-Lavalin acquired Trouvin, Fimatec France and S.A.M. Fimatec, consolidating its position in France. The acquisition of Trouvin will strengthen SNC-Lavalin's position in the Île de France region, while Fimatec will provide a presence in southeastern France.



## Management's Discussion and Analysis

### BASIS OF PRESENTATION AND CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis is designed to provide the reader with a greater understanding of our business, our business strategy and performance, our expectations of the future, and how we manage risk and capital resources. It is intended to enhance the understanding of the audited consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents. Statements made in this report that describe the Company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements", which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes. Reference in this Management's Discussion and Analysis to the "Company" means SNC-Lavalin Group Inc. "SNC-Lavalin" means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company, or one or more of its subsidiaries or joint ventures.

## 2. OVERVIEW

### 2.1 OUR BUSINESS

Along with providing engineering, procurement, construction, project management and project financing services to specific industry segments, such as Chemicals and Petroleum, Power, Infrastructure and Environment, Mining and Metallurgy and All Other, SNC-Lavalin's activities include long-term outsourcing services mainly in the Facilities and Operations Management segment, as well as manufacturing activities within the Defence segment.

SNC-Lavalin also makes selective investments in concession-type projects that require the capability to bring together a variety of skills ranging from technical, project management and financing.

### 2.2 OUR BUSINESS STRATEGY

SNC-Lavalin's business strategy consists of the following:

- Build on its recognized expertise in its core sectors and develop new expertise in technical fields with promising growth opportunities;
- Use its financing capabilities to enhance its competitiveness for major projects;
- Combine its technical expertise and financial capabilities to develop and acquire infrastructure concessions with solid fundamentals and potential;
- Continue to view the world as its marketplace through the international network it has built up over nearly 40 years.

This business strategy, associated with strong operating efficiencies which include a culture of financial accountability among its workforce, has permitted the Company to achieve sustained results for over a decade.

### 2.3 HOW WE ANALYZE OUR RESULTS

The accounting treatment for SNC-Lavalin's investment in 407 International Inc. ("Highway 407") under Canadian Generally Accepted Accounting Principles (GAAP), requires proportionate consolidation as it relates to joint venture accounting. Under such accounting treatment, the Company records, on a line-by-line basis, its proportionate share (currently 16.77%) of the balance sheet, income statement and cash flow statement of Highway 407 in the Company's audited consolidated financial statements. Based on this accounting treatment, the Company's audited consolidated financial statements reflect \$659.0 million in non-recourse long-term debt from Highway 407 as at December 31, 2003 compared to the Company's total shareholders' equity of \$658.3 million as at December 31, 2003. This current accounting treatment (proportionate consolidation) does not reflect the way the Company views the nature of the investment in Highway 407.

## Management's Discussion and Analysis

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Therefore, the Company presented, in note 2 to the 2003 audited consolidated financial statements, in each of its 2003 unaudited interim consolidated financial statements, as well as in the 2002 audited consolidated financial statements, its results using the equity method, as opposed to proportionate consolidation, to account for the Highway 407 investment. The Company is aware that showing Highway 407 results as an equity investment is not the accounting treatment required by Canadian GAAP, yet this accounting treatment could be appropriate under United States GAAP requirements.

In order to provide the reader with a greater understanding of the Company's underlying assets, earnings base and financial resources, to facilitate analysis of each of SNC-Lavalin's activities, and to reflect the way the Company views the nature of this investment, the following analyses and additional financial information have been prepared with the Company's investment in Highway 407 accounted for on the equity basis, thereby enabling the Company to identify the results from engineering and construction and other concession-type activities separately from Highway 407.

### 2.3.1 RESULTS EXCLUDING HIGHWAY 407

Results excluding Highway 407 are evaluated and reported by the Company based on **industry segments**, and are also reported by **category of activities**.

#### RESULTS BY INDUSTRY SEGMENTS

The Company's results are primarily evaluated by industry segment. These industry segments are: Chemicals and Petroleum, Power, Infrastructure and Environment, Mining and Metallurgy, Facilities and Operations Management, Defence, Investments and All Other.

These industry segments regroup business units with related activities within SNC-Lavalin. Accountability for these business units rests with senior executives, whereby their bonuses are based on the performance of their respective business units, as well as on the Company's financial performance and their individual objectives.

- The Chemicals and Petroleum, Power, Infrastructure and Environment, Mining and Metallurgy and All Other industry segments incorporate both Services and Packages activities and are derived primarily from cost-plus reimbursable and fixed-price contracts.
- The Facilities and Operations Management segment, whose major activities are the long-term outsourcing of integrated management services and solutions, and the Defence segment, whose major activities include the manufacturing of ammunition, propellant and propulsive powder, are concession-type activities with recurring revenues.
- The Investments segment consists of SNC-Lavalin's investments in infrastructure-type concessions, for which accountability lies with the SNC-Lavalin Investment division.

#### RESULTS BY CATEGORY OF ACTIVITIES

Management also reviews results by category of activities (i.e., Services, Packages and Concessions) in order to assess the overall Company performance. Furthermore, as Services, Packages and Concessions activities provide different gross margin yields and have different risk profiles, management reviews the performance of these activities independently.

- **Services revenues** are generated by providing professional services, including engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning, and are derived from cost-plus reimbursable contracts and fixed-fee contracts.
- **Packages revenues**, in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.
- **Concessions revenues** represent SNC-Lavalin's activities from investments in infrastructure-type concessions, together with long-term outsourcing and other concession-type arrangements.



## Management's Discussion and Analysis

### 3. OVERALL FINANCIAL PERFORMANCE AND 2004 OUTLOOK

#### SELECTED FINANCIAL INDICATORS

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2003	2002	2001
<b>NET INCOME (LOSS)</b>			
Excluding Highway 407, before amortization of goodwill	\$ 99,185	\$ 89,511	\$ 73,805
Amortization of goodwill, net of income taxes	—	—	(14,611)
<b>Excluding Highway 407, as reported</b>	<b>99,185</b>	<b>89,511</b>	<b>59,194</b>
Highway 407, net of consolidation eliminations	(12,657)	(16,858)	(32,748)
Net gain on disposal of a portion of the investment in 407 International Inc.	—	115,204	—
Gain on dilution of investment in 407 International Inc.	—	14,673	—
<b>From Highway 407</b>	<b>(12,657)</b>	<b>113,019</b>	<b>(32,748)</b>
<b>CONSOLIDATED NET INCOME, AS REPORTED</b>	<b>\$ 86,528</b>	<b>\$ 202,530</b>	<b>\$ 26,446</b>
<b>EARNINGS PER SHARE</b>			
Basic	\$ 1.72	\$ 4.04	\$ 0.55
Diluted	\$ 1.69	\$ 3.95	\$ 0.54

#### 3.1 CONSOLIDATED NET INCOME

Consolidated net income in 2003 was \$86.5 million (\$1.69 per share on a diluted basis) compared with net income of \$202.5 million in 2002 (\$3.95 per share on a diluted basis), explained by the following:

Excluding Highway 407 net income totalled \$99.2 million in 2003 compared to \$89.5 million in 2002, a favourable impact of \$9.7 million, or 10.8%, resulting mainly from increased contributions from the Mining and Metallurgy and Infrastructure and Environment segments, partially offset by decreases in the Chemicals and Petroleum and Defence segments.

Highway 407 net accounting loss totalled \$12.7 million in 2003 compared to net income of \$113.0 million in 2002, a reduction of \$125.7 million, due in large part to the net after-tax gain of \$115.2 million in the first quarter of 2002 related to the disposal of a portion of the investment in 407 International Inc., as well as a dilution gain of \$14.7 million in the first quarter of 2002 resulting from the deemed conversion of 407 International Inc.'s subordinated convertible debenture into common shares, effective January 1, 2002 (refer to note 3 to the audited consolidated financial statements). These disposal and dilution gains were partially offset by a \$4.2 million lower proportionate share of the accounting loss from Highway 407, including consolidation eliminations.

The 2001 consolidated net income included \$14.6 million of goodwill amortization, and as a result of a change in Canadian accounting standards, effective January 1, 2002, goodwill is no longer amortized, but instead tested for impairment.

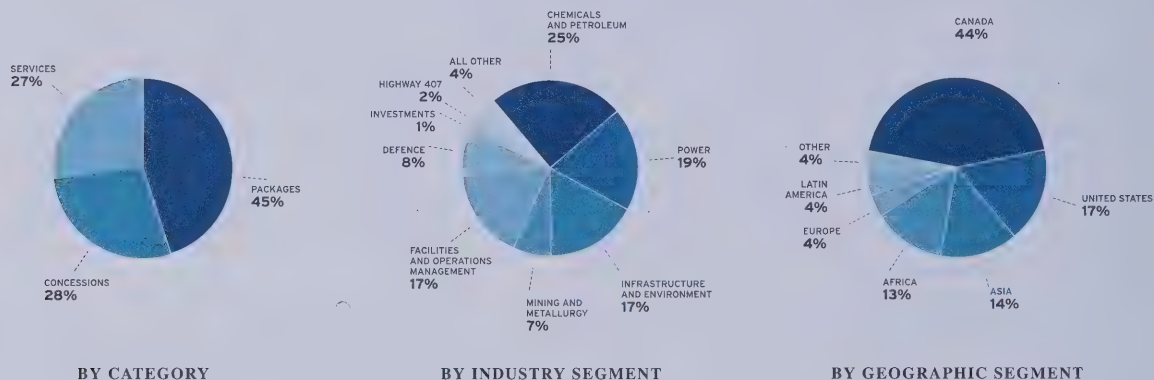
#### 3.2 CONSOLIDATED REVENUES

Consolidated revenues decreased to \$3,264.9 million in 2003 from \$3,431.6 million in 2002, reflecting lower activity in Packages contracts, mainly due to a decrease in the Power segment, partially offset with an increase in the Chemicals and Petroleum segment, together with a 14.4% increase in activity in Services contracts, mainly in the Mining and Metallurgy, Infrastructure and Environment, as well as in the Chemicals and Petroleum segments. Concessions activities remained in line with 2002. Consolidated revenues in 2002 were \$1,104.8 million higher than the \$2,326.8 million in 2001, resulting mainly from the award of the gas-fired thermal power plants in the United States in May 2002, together with increased activity on significant projects in the Chemicals and Petroleum, and Infrastructure and Environment segments.

## Management's Discussion and Analysis

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### 2003 REVENUES



The diversity of the Company's revenue base and its flexibility to operate in different categories as well as industry and geographic segments, have been key elements in its sustainable performance over the last decade, despite the year-to-year variations in the respective percentages.

### 3.3 ECONOMIC TRENDS

Economic growth in Canada was lower in 2003 with a gross domestic product (GDP) growth of 1.7%, compared with 3.3% in 2002, as exports suffered from a sharp increase in the value of the Canadian dollar against the US dollar. The impact of the appreciation of the Canadian dollar is not significant to SNC-Lavalin's activities, as SNC-Lavalin sources its project material and equipment on a global basis based on best value criteria, and the salaries component remains very competitive compared to the US. The Canadian dollar fluctuation has an impact on SNC-Lavalin's Defence manufacturing operations, however, this is offset in part through its product differentiation. Also, consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin has in place a hedging strategy to protect itself against foreign currency exposure.

A healthy US economy is expected to lead the expansion of the Canadian and world economies in 2004, and the outlook for the engineering and construction industry remains positive, as the Company sees opportunities in Canada and in many regions of the world, mainly in the Power and Chemicals and Petroleum segments, as well as in the water and transportation sectors. Moreover, falling inventories and strong commodity prices will help sustain a strong base in resource-based sectors within Mining and Metallurgy.

### 3.4 COMPANY OUTLOOK

Given the current economic context and expected growth in the Canadian and overall global economies, SNC-Lavalin is well placed to benefit from its sectoral diversity and well-established presence both inside and outside Canada. The combination of numerous opportunities in Canada as well as outside Canada, together with SNC-Lavalin's strong opening backlog in all segments and healthy financial position, provides a solid basis for **continued growth in profitability in the year ahead.**



## Management's Discussion and Analysis

### 4. GEOGRAPHIC BREAKDOWN OF REVENUES

YEARS ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003		2002	
CANADA	\$ 1,443.6	44%	\$ 1,622.3	48%
OUTSIDE CANADA				
United States	562.3	17%	949.4	28%
Asia	441.0	14%	187.3	5%
Africa	428.0	13%	283.4	8%
Europe	144.4	4%	142.8	4%
Latin America	129.7	4%	119.6	3%
Other	115.9	4%	126.8	4%
	1,821.3	56%	1,809.3	52%
TOTAL REVENUES	\$ 3,264.9	100%	\$ 3,431.6	100%

#### 4.1 REVENUES IN CANADA

As expected, revenues in Canada decreased to \$1,443.6 million in 2003, compared with \$1,622.3 million in 2002, mainly due to lower activity in the Chemicals and Petroleum, Infrastructure and Environment, and Defence segments, partially offset by an increase in the Mining and Metallurgy segment.

Revenues in Canada over the last three years have been within a range of \$1.4 to \$1.6 billion, and are **expected to remain within this range in 2004**, due in part to higher activities expected in the Power segment, offset by lower revenues in the Chemicals and Petroleum segment due to the completion or near completion of several projects in 2003.

#### 4.2 REVENUES FROM OUTSIDE CANADA

Revenues from outside Canada, which were expected to decrease, totalled \$1,821.3 million in 2003, compared with \$1,809.3 million in 2002. Despite the decrease resulting from the completion in 2003 of certain gas-fired thermal power plants ("gas-fired power plants"), which were awarded in May 2002, and which contributed revenues of \$821.4 million in 2002 (\$331.7 million in 2003), revenues from outside Canada remained in line with 2002 mainly as a result of increased activity in Asia and Africa, resulting from significant contract awards in the Chemicals and Petroleum and Infrastructure and Environment segments, respectively.

- As expected, revenues generated in the United States decreased to \$562.3 million in 2003 from \$949.4 million in 2002. The decrease resulting from the completion in 2003 of certain "gas-fired power plants", was partially offset by an increase in the Chemicals and Petroleum segment.
- Revenues from Asia in 2003 of \$441.0 million increased compared with 2002 revenues of \$187.3 million, due in large part to higher activity in the Chemicals and Petroleum segment, partially offset by a reduction in the Power segment.
- Revenues generated in Africa were \$428.0 million in 2003 compared with \$283.4 million in 2002, mainly reflecting greater activity in the Infrastructure and Environment segment.
- Revenues from Europe were \$144.4 million in 2003, in line with 2002 revenues of \$142.8 million, reflecting continued activity in the Infrastructure and Environment, Chemicals and Petroleum and Defence segments.
- Revenues from Latin America were \$129.7 million in 2003 compared with \$119.6 million in 2002, mainly due to slightly increased activity in the Infrastructure and Environment and Mining and Metallurgy segments.
- Revenues from other regions, including Eurasia and the Middle East, decreased in 2003 compared with 2002, as increased activity in the Chemicals and Petroleum segment was more than offset by lower activities in the Infrastructure and Environment segment.

## Management's Discussion and Analysis

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The Company expects revenues from outside Canada to increase in 2004, with recent awards in the Power segment as well as continued activities on ongoing contracts in the Infrastructure and Environment and Chemicals and Petroleum segments, together with several opportunities in the United States, Africa, Latin America, Middle East and Asia.

### 5. BREAKDOWN OF INCOME STATEMENT

As mentioned earlier, and as in previous years, the Company presents additional financial information with Highway 407 accounted for on an equity basis (refer to note 2 to the audited consolidated financial statements) in order to facilitate the discussion and analysis of each of SNC-Lavalin's activities. The following discussion and analysis has been prepared for the Excluding Highway 407 component.

#### FINANCIAL RESULTS (EXCLUDING HIGHWAY 407)

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003		2002	
<b>REVENUES</b>				
Services	\$	888,824	\$	777,221
Packages		1,464,058		1,769,836
Concessions		853,781		833,795
	\$	<u>3,206,663</u>	\$	<u>3,380,852</u>
<b>GROSS MARGIN</b>				
Services	\$	229,050	\$	183,885
		25.8%		23.7%
Packages		136,718		141,010
		9.3%		8.0%
Concessions		95,186		111,408
		11.1%		13.4%
		<u>460,954</u>		<u>436,303</u>
		14.4%		12.9%
<b>ADMINISTRATIVE, MARKETING AND OTHER EXPENSES</b>		305,363		292,176
<b>INTEREST AND CAPITAL TAXES</b>		<u>8,868</u>		<u>10,990</u>
<b>INCOME BEFORE INCOME TAXES</b>		146,723		133,137
<b>INCOME TAXES</b>		<u>47,538</u>		<u>43,626</u>
<b>NET INCOME EXCLUDING HIGHWAY 407</b>	\$	<u>99,185</u>	\$	<u>89,511</u>

#### 5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues totalled \$3,206.7 million in 2003 compared to \$3,380.9 million in 2002.

- Services revenues increased by 14.4%.
- Packages revenues decreased by 17.3%.
- Concessions revenues remained in line with last year.

Gross margin increased to \$461.0 million in 2003 compared with \$436.3 million in 2002, an increase of \$24.7 million. Despite slightly lower revenues, the gross margin increased over 2002 in dollar terms, mainly as a result of an increase in the gross-margin-to-revenue ratio for both Services and Packages, together with higher Services revenues which typically generate higher gross margin ratios compared to Packages and Concessions.

## Management's Discussion and Analysis

### 5.1.1 SERVICES REVENUES AND GROSS MARGIN

As expected, **Services revenues increased to \$888.8 million in 2003** compared with \$777.2 million in 2002, mainly due to higher activity in the Mining and Metallurgy and Chemicals and Petroleum segments, from contributors such as:

- The acquisition of GDS Engineers, Inc. in January 2003;
- The engineering, procurement and construction management (EPCM), in Canada, for the increased capacity of Aluminerie Alouette Inc.'s aluminum smelter;
- The EPCM services contract for the new mine, concentrator and related facilities complex to be located at Voisey's Bay, Newfoundland and Labrador;
- The decommissioning and reclamation of the Polaris Mine in the Canadian High Arctic;
- The engineering, procurement, construction (EPC) contract of a gasoline desulphurization unit in Edmonton;
- The supervision services contract for an offshore platform and an on-shore gas processing facility in western Libya.

**Gross margin for the Services category was \$229.0 million in 2003** compared with \$183.9 million last year, reflecting higher volume as well as an increase in the gross margin-to-revenue ratio to 25.8% in 2003 compared with 23.7% in 2002, mainly in the Mining and Metallurgy, and Infrastructure and Environment segments.

**Services revenues are expected to remain in line in 2004**, with a strong opening backlog and opportunities both inside and outside Canada in the upcoming year.

### 5.1.2 PACKAGES REVENUES AND GROSS MARGIN

As expected, **Packages revenues decreased to \$1,464.1 million in 2003** compared with \$1,769.8 million in 2002, reflecting a reduction in the Power segment mainly as a result of the completion of certain "gas-fired power plants" in 2003, partially offset by an increase in revenues mainly in the Chemicals and Petroleum segment. This increase reflects progress in ongoing projects, such as:

- The EPC contract of an anhydrous ammonia production plant in Australia;
- The Sarir Plant contract for the rehabilitation of a Pre-Stressed Concrete Cylinder Pipe plant as well as the manufacturing of 15,000 pipes in Libya;
- A contract to carry out an emergency water project for the city of Skikda, Algeria;
- A contract for the design, construction and first year of operational support of the Saih Nihayda Gas Plant in Oman;
- The contract to design, build, operate and maintain an 825 MW combined cycle thermal power plant in the Skikda region of Algeria;
- The EPC contract to design and build a 120 MW power facility in British Columbia.

**The overall Packages gross margin decreased to \$136.7 million in 2003** from \$141.0 million in 2002. The decrease in gross margin was mainly as a result of lower volume, partially offset by an increase in the gross margin-to-revenue ratio to 9.3% in 2003, as the 2002 gross margin-to-revenue ratio of 8.0% reflected lower margins on early stage projects.

**Packages revenues for 2004 are expected to increase** reflecting higher activities on recently awarded projects outside Canada, together with several opportunities both inside and outside Canada.

### 5.1.3 CONCESSIONS REVENUES AND GROSS MARGIN

Concession activities mainly include the SNC-Lavalin ProFac subsidiary, which is involved in Facilities and Operations Management, as well as investments in infrastructure-type concessions. Also part of the Concessions activities is the Defence segment involved in the manufacturing of ammunition, propellant and propulsive powder for military, commercial and automotive markets.



## Management's Discussion and Analysis

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### CONCESSIONS REVENUES BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003	2002	INCREASE (DECREASE)	CHANGE
Facilities and Operations Management	\$ 557,331	\$ 526,993	\$ 30,338	5.8 %
Defence	270,921	277,418	(6,497)	(2.3) %
Investments	18,849	13,794	5,055	36.6 %
All Other	6,680	15,590	(8,910)	(57.2) %
	<u>\$ 853,781</u>	<u>\$ 833,795</u>	<u>\$ 19,986</u>	<u>2.4 %</u>

As expected, **Concessions revenues of \$853.8 million in 2003** were higher than 2002, reflecting increased activity in the Facilities and Operations Management and Investments segments, partially offset by a decrease in the Defence and All Other segments.

**Concessions gross margin totalled \$95.2 million in 2003**, a decrease of \$16.2 million compared with \$111.4 million last year, due to a lower gross margin-to-revenue ratio of 11.1% in 2003 compared to 13.4% in 2002, reflecting lower margins on certain Defence activities.

**The Company expects 2004 Concessions revenues to be slightly higher than 2003**, with higher contributions expected from the Facilities and Operations Management segment together with continued contributions from the Defence and Investments segments.

### 5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

Administrative, marketing and other expenses were \$305.4 million in 2003 compared with \$292.2 million in 2002. The increase in expenses was due in large part to additional costs relating to businesses acquired in early 2003, largely offset by reductions in 2003 relating to the high level of marketing efforts in the transport sector in 2002 as well as the appropriate adjustments in the size of the thermal power operations in 2002 and early 2003. The Company continues to maintain an appropriate balance between revenues and administrative expenses, while maintaining the necessary investment in marketing and selling activities to achieve growth. **The Company expects 2004 administrative, marketing and other expenses to remain in line with 2003.**

### 5.3 INTEREST AND CAPITAL TAXES ANALYSIS

Interest and capital taxes expenses decreased by \$2.1 million in 2003 totalling \$8.9 million compared with \$11.0 million in 2002. The decrease was mainly as a result of higher interest income, reflecting a higher average cash position in 2003, partially offset by a lower effective interest yield in 2003. **The Company expects 2004 interest and capital taxes expenses to decrease** mainly as a result of higher interest income reflecting a higher expected effective interest yield in 2004, as well as lower capital taxes.

### 5.4 INCOME TAXES ANALYSIS

The Company's 2003 effective income tax rate, excluding Highway 407, was 32.4% compared with 32.8% in 2002. **The Company expects the 2004 effective tax rate, excluding Highway 407, to be lower** mainly as a result of the decreasing Canadian Federal statutory rate, as well as the expected mix of activities in Canada and internationally.

The consolidated effective tax rate was 35.8% in 2003 compared with 26.4% in 2002. The lower consolidated effective income tax rate in 2002 is mainly explained by the non-taxable portion of the capital gain from the disposal of a portion of the investment in 407 International Inc.

## Management's Discussion and Analysis

### 6. BACKLOG

The Company records backlog based on contract awards that are considered firm, as well as on a five-year rolling basis for recurring revenues on certain concession-type agreements and for Highway 407.

#### REVENUE BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002	CHANGE
<b>BY CATEGORY</b>			
Services	\$ 567.7	\$ 416.2	36.4 %
Packages	1,749.5	1,715.4	2.0 %
Concessions	1,484.9	1,695.0	(12.4)%
Total – Excluding Highway 407	3,802.1	3,826.6	(0.6)%
From Highway 407	370.8	342.8	8.2 %
Consolidated revenue backlog	\$ 4,172.9	\$ 4,169.4	0.1 %
<b>BY REGION</b>			
Canada			
Excluding Highway 407	\$ 1,634.8	\$ 1,973.0	(17.1)%
From Highway 407	370.8	342.8	8.2 %
Total Canada	2,005.6	2,315.8	(13.4)%
Outside Canada	2,167.3	1,853.6	16.9 %
<b>TOTAL</b>	<b>\$ 4,172.9</b>	<b>\$ 4,169.4</b>	<b>0.1 %</b>

**Revenue backlog – Excluding Highway 407 remained in line with last year, totalling \$3.8 billion.**

- Services backlog grew most significantly with an increase of 36.4%.
- Packages backlog remained in line with 2002.
- Concessions backlog decreased by 12.4%.
- Backlog from Canada – Excluding Highway 407 decreased by 17.1% mainly in the Facilities and Operations Management and Chemicals and Petroleum segments, partially offset by an increase in the Power segment.
- Backlog outside Canada increased by 16.9% over last year, reflecting higher activity in the Power and Defence segments, partially offset by decreases in the Infrastructure and Environment and Chemicals and Petroleum segments.

#### 6.1 SERVICES BACKLOG

Services backlog increased significantly to \$567.7 million at the end of 2003 compared with \$416.2 million in 2002, reflecting increases in the Chemicals and Petroleum and Mining and Metallurgy segments.

#### RECONCILIATION OF SERVICES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002	CHANGE
Opening backlog	\$ 416.2	\$ 389.7	6.8 %
Add: Contract bookings during the year	1,040.3	803.7	29.4 %
Less: Revenues recognized during the year	888.8	777.2	14.4 %
Ending backlog	\$ 567.7	\$ 416.2	36.4 %

## Management's Discussion and Analysis

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Services bookings for 2003 were \$1,040.3 million compared to \$803.7 million in 2002, with notable additions such as:

- The acquisition of GDS Engineers, Inc., in Chemicals and Petroleum;
- The EPCM services contract for the new mine, concentrator and related facilities complex to be located at Voisey's Bay, Newfoundland and Labrador, in Mining and Metallurgy;
- The EPCM contract for an ultra low sulphur diesel project in Canada, in Chemicals and Petroleum;
- The joint venture contract for the engineering, planning and related activities as part of the Phase 2 review of a nickel project in New Caledonia, in Mining and Metallurgy;
- The feasibility study for the proposed expansion of Alcan's alumina refinery at Gove, in Australia's Northern Territory, in Mining and Metallurgy;
- The EPCM services contract for the development of a gold mine project in the Riyadh region of Saudi Arabia, in Mining and Metallurgy.

### 6.2 PACKAGES BACKLOG

Packages backlog of \$1,749.5 million in 2003 remained in line with the backlog of \$1,715.4 million in 2002, reflecting an increase in the Power segment, offset by the completion and near completion of projects in the Chemicals and Petroleum and Infrastructure and Environment segments.

#### RECONCILIATION OF PACKAGES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002	CHANGE
Opening backlog	\$ 1,715.4	\$ 885.0	93.8 %
Add: Contract bookings during the year	1,497.8	2,599.7	(42.4)%
Less: Revenues recognized during the year	1,463.7	1,769.3	(17.3)%
Ending backlog	\$ 1,749.5	\$ 1,715.4	2.0 %

Packages bookings in 2003 totaling \$1,497.8 million, which were \$1,101.9 million lower than last year due in large part to the "gas-fired power plants" contract bookings in 2002. Major bookings in 2003 included contracts such as:

- The contract to design, build, operate and maintain an 825 MW combined cycle thermal power plant in the Skikda region of Algeria, in Power;
- The EPC contract for a thermal power plant to be constructed near the City of Limerick, Ireland in Power;
- The EPC and commissioning of a solid waste treatment and disposal plant in the United Arab Emirates, in Infrastructure and Environment;
- The EPC contract to design and build a water treatment plant and water conveyance system in the Dominican Republic, in Infrastructure and Environment;
- The EPC contract to design and build a 120 MW power facility in British Columbia, in Power;
- The EPC contract to design and construct a 60 MW combined cycle thermal power in the City of Farmington, New Mexico in Power.



## Management's Discussion and Analysis

### 6.3 CONCESSIONS BACKLOG

#### BREAKDOWN OF CONCESSIONS BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002	CHANGE
Facilities and Operations Management	\$ 762.2	\$ 1,131.7	(32.6)%
Defence	720.5	560.1	28.6 %
Other	2.2	3.2	(31.3)%
Excluding Highway 407	1,484.9	1,695.0	(12.4)%
From Highway 407	370.8	342.8	8.2 %
<b>TOTAL CONCESSIONS</b>	<b>\$ 1,855.7</b>	<b>\$ 2,037.8</b>	<b>(8.9)%</b>

**Concessions backlog Excluding Highway 407 was \$1,484.9 million in 2003** compared with \$1,695.0 million in 2002, reflecting a decrease in the Facilities and Operations Management segment resulting mainly from a normal fluctuation in the timing of long-term contracts, partially offset by an increase in the Defence segment's international contracts.

## 7. OPERATING RESULTS BY INDUSTRY SEGMENT

As mentioned previously, the Company's results are primarily evaluated by industry segment, in which each of the Company's segmented results, namely the Chemicals and Petroleum, Power, Infrastructure and Environment, Mining and Metallurgy, Facilities and Operations Management, Defence, Investments and All Other are used as a basis for accountability by management. The following discussion and analysis has been prepared for the Excluding Highway 407 component (refer to note 18 to the audited consolidated financial statements for reconciliation to consolidated net income).

#### OPERATING RESULTS BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003		2002	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
Chemicals and Petroleum	\$ 818,522	\$ 12,628	\$ 631,716	\$ 32,384
Power	607,151	37,206	1,077,354	33,499
Infrastructure and Environment	570,893	37,872	575,156	22,756
Mining and Metallurgy	239,343	33,839	168,887	13,722
Facilities and Operations Management	557,331	12,063	526,993	11,832
Defence	270,921	9,959	277,418	16,311
Investments	18,849	6,170	13,794	7,699
All Other	123,653	7,453	109,534	6,895
<b>TOTAL</b>	<b>\$ 3,206,663</b>	<b>\$ 157,190</b>	<b>\$ 3,380,852</b>	<b>\$ 145,098</b>

## Management's Discussion and Analysis

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### 7.1 CHEMICALS AND PETROLEUM

Revenues from Chemicals and Petroleum increased by 29.6% in 2003 totalling \$818.5 million from \$631.7 million in 2002, reflecting activity from contributors such as:

- The EPC contract of an anhydrous ammonia production plant in Australia;
- The acquisition of GDS Engineers, Inc. in the United States;
- A contract for the design, construction and first year of operational support of the Saih Nihayda Gas Plant in Oman;
- The design/build contract for a purified terephthalic acid (PTA) plant in Quebec, Canada;
- The EPC contract to build a polytrimethylene terephthalate (PTT) plant in Quebec, Canada;
- The EPC contract for a gasoline desulphurization unit in Edmonton, Canada;
- Several other "clean fuels" projects in the US and Canada.

Operating income, which was expected to remain in line, totalled \$12.6 million in 2003 compared with \$32.4 million in 2002, as the increase in volume was more than offset by lower margins on certain packages projects.

The contribution from the Chemicals and Petroleum segment is expected to increase in 2004 compared with 2003, with continued activity from ongoing projects in Canada as well as abroad, together with contributions from newly awarded projects and from various opportunities inside and outside Canada.

### 7.2 POWER

As expected, Power revenues decreased to \$607.2 million in 2003 compared with \$1,077.4 million in 2002. The decrease, resulting mainly from the completion of certain "gas-fired power plants" in 2003, was partially offset by major contributors such as:

- The contract to design, build, operate and maintain an 825 MW combined cycle thermal power plant in the Skikda region of Algeria;
- The EPC contract to design and build a 120 MW power facility in British Columbia, Canada;
- The EPC contract to design and construct a 60 MW combined cycle thermal power in the City of Farmington, New Mexico, U.S.A.;
- EPC services for transmission lines in Alberta, Canada.

Operating income totalled \$37.2 million in 2003 compared with \$33.5 million in 2002. Despite lower revenues, gross margin increased in dollar terms mainly reflecting contributions from projects completed in 2003, which generated higher margins.

The Company expects the Power segment contribution to increase in 2004, with increased activity on projects awarded in the second half of 2003 and early 2004, together with various opportunities for generation and transmission projects in Canada and outside Canada.

### 7.3 INFRASTRUCTURE AND ENVIRONMENT

Infrastructure and Environment revenues, which remained in line with last year, totalled \$570.9 million in 2003, with favourable contributions from projects such as:

- The Sarir Plant contract for the rehabilitation of a Pre-Stressed Concrete Cylinder Pipe plant as well as the manufacturing of 15,000 pipes in Libya;
- A contract to carry out an emergency water project for the city of Skikda, Algeria;
- A contract to provide goods and services for a comprehensive conservation and water management program in the Cojedes River Basin in north-western Venezuela;
- The contract for the final design and execution of two waste water pumping stations, treatment plant and connecting pipelines for the eastern peninsular city of Carupano in Venezuela.

## Management's Discussion and Analysis

These favourable contributions were offset by lower activities on projects completed or nearing completion such as the construction of a water supply transfer system (Plan d'Urgence SAA) in Algeria, and completed projects, such as the detailed EPC of two chilled water plants at Zayed Military City in Suweihan, Abu Dhabi and the Bell Western telecommunications towers construction project in Canada.

As expected, **the 2003 operating income increased to \$37.9 million** compared with \$22.8 million in 2002, reflecting higher margins from completed projects, as well as the impact of a higher than normal level of marketing and proposal efforts in the transport sector in 2002.

**The Company expects contributions from the Infrastructure and Environment segment to decrease in 2004**, mainly as a result of favourable margins on completed projects in 2003, partially offset by increased activity from the ongoing and recently awarded projects together with several opportunities inside and outside Canada.

### 7.4 MINING AND METALLURGY

**Mining and Metallurgy revenues increased by 41.7% in 2003**, totalling \$239.3 million compared with \$168.9 million in 2002, reflecting increased activities on projects such as:

- The EPCM contract, in Canada, for the increased capacity of Aluminerie Alouette Inc.'s aluminum smelter;
- The EPCM services contract for the new mine, concentrator and related facilities complex to be located at Voisey's Bay, Newfoundland and Labrador;
- The decommissioning and reclamation of the Polaris Mine in the Canadian High Arctic;
- A joint contract to modernize and automate a copper electro-refinery in Chuquicamata, Chile;
- The EPCM contract in Argentina for Barrick Gold on the Veladero project.

As expected, **the 2003 operating income increased to \$33.8 million** compared with \$13.7 million in 2002 reflecting higher activities, as well as favourable margins on certain completed projects.

**The Company expects contributions from the Mining and Metallurgy segment to decrease in 2004**, as favourable margins on completed projects in 2003 will be partially offset by increased activity from the ongoing and recently awarded projects together with significant opportunities in Australia, South America, Saudi Arabia and Canada due to strong demand resulting from strong commodity prices.

### 7.5 FACILITIES AND OPERATIONS MANAGEMENT

The major activities of this segment are the long-term outsourcing of integrated management services and solutions for facilities, infrastructure and real estate, as well as the management of mission-critical facilities, which are provided by SNC-Lavalin's wholly-owned subsidiary SNC-Lavalin ProFac and its subsidiaries.

**Facilities and Operations Management revenues were \$557.3 million in 2003**, an increase of 5.8% compared to last year, and the **operating income was \$12.1 million in 2003** compared to \$11.8 million in 2002, mainly reflecting the increase in activities.

The current portfolio of almost eight million square metres of space in over 6,500 facilities, together with the awarded joint venture contracts to provide support services to the Canadian military during deployment on international operations, and opportunities inside and outside Canada, are expected to provide the basis for **at least continued profitability in the Facilities and Operations Management segment in 2004**.

### 7.6 DEFENCE

**Defence revenues totalling \$270.9 million in 2003**, were in line with 2002 revenues of \$277.4 million, and **operating income was \$10.0 million for 2003** compared with \$16.3 million in 2002 due mainly to lower contributions from certain activities.

**The Company expects contributions from the Defence segment to increase in 2004** as it has launched modernization and cost-reduction programs for EXPRO TEC's facility, which is expected to increase its efficiencies.



## Management's Discussion and Analysis

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### 7.7 INVESTMENTS

The Investments segment represents SNC-Lavalin's participation in the following investments:

- The **AltaLink Consortium**, in which SNC-Lavalin holds a 50% investment, which on April 29, 2002, acquired approximately 12,000 km of transmission lines and over 250 substations in Alberta, operates on a rate regulated basis;
- The indirect interest of 15.5%, concluded in July 2002, in **Malta International Airport p.l.c. (MIA)**, which acquired the right to own and manage the Malta International Airport under a 65-year concession agreement;
- The 50% investment in **Gazmont**, in 1996, which operates a 25 MW biogas thermal power plant;
- The 21% investment in the **West End Dam Associates**, in 1985, a 4.5 MW mini-power generation facility in New York State;
- The 33.7% investment in **Southern Electric Power Company Limited** in Pakistan in 1999, a 117 MW thermal power plant;
- The 50% investment in **Murraylink** in 2001, owner and operator of an interconnector between the electricity transmission grids of the Australian states of Victoria and South Australia, which received regulatory approval to convert to a rate regulated status as of October 9, 2003. Although the conversion to a rate regulated status will provide a more stable and predictable revenue flow, the approval of a lower than expected regulated rate base will result in a return on investment for the Murraylink concession that is lower than the Company's overall objective of long-term Canada Bond Yield plus 600 basis points.

The equity requirements for all of these investments have been funded, and their respective debts are non-recourse to the Company.

These investments are accounted for using the equity or proportionate consolidation method depending on whether SNC-Lavalin exercises significant influence or joint control, respectively. In evaluating the performance of the segment, the relationship between revenues and operating income may not be meaningful, as a significant portion of these investments is accounted for using the equity method, which does not reflect the line by line items of the financial results.

**Operating income was \$6.2 million in 2003** compared with \$7.7 million in 2002, reflecting lower results from certain of SNC-Lavalin's investments, which are not expected to be repeated next year, and as a result, **the Company expects the performance from the Investments segment to increase in 2004.**

### 7.8 ALL OTHER

All Other includes activities in pharmaceuticals and biotechnology, agrifood, telecommunications as well as other industrial plants.

**Revenues increased by 12.9% in 2003**, totalling \$123.7 million compared with \$109.5 million in 2002, due mainly to increased activity in the light industrial sector in France, partially offset by lower Packages activities in the biopharmaceutical sector. **Operating income for 2003 was \$7.5 million** compared with \$6.9 million in 2002, mainly reflecting increased activities in 2003.

**The Company expects the performance of the All Other segment to increase slightly in 2004**, with increased activity from newly awarded projects in France.

### 7.9 HIGHWAY 407

The following analysis highlights the operating results of SNC-Lavalin's investment in the Highway 407 concession. In 1999, SNC-Lavalin invested \$175.0 million in common shares of 407 International Inc., representing a 26.92% (22.58% fully diluted) equity investment. On May 5, 1999, SNC-Lavalin and its partners, through 407 International Inc., acquired from the Government of Ontario, all issued and outstanding shares of 407 ETR Concession Company Limited, which operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. Highway 407 consists of four, six, and eight-lane sections for a distance of 108 kilometres.

## Management's Discussion and Analysis

### HIGHWAY 407

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003	2002
<b>HIGHWAY 407 RESULTS (AT 100% LEVEL)</b>		
Revenues	\$ 349,511	\$ 310,972
Income before interest and taxes	\$ 186,664	\$ 159,409
Interest and capital tax	(257,369)	(253,019)
Loss before income taxes	(70,705)	(93,610)
Income taxes	(4,499)	(5,497)
Net loss	\$ (75,204)	\$ (99,107)
<b>SNC-LAVALIN'S PROPORTIONATE SHARE</b>		
Share of the net loss @ 16.77% <sup>(1)</sup>	\$ (12,615)	\$ (11,680)
Share of the net loss @ 22.58% <sup>(1)</sup>	—	(6,657)
Net gain on disposal of a portion of the investment in 407 International Inc.	—	115,204
Gain on dilution of investment in 407 International Inc.	—	14,673
Consolidation eliminations	(42)	1,479
Net income (loss), net of consolidation eliminations	\$ (12,657)	\$ 113,019

<sup>(1)</sup> The 2002 figures were calculated using a 22.58% interest in 407 International Inc. from January 1 to March 31, and 16.77% thereafter (refer to note 3 to the audited consolidated financial statements).

Net accounting loss from Highway 407 for 2003 totalled \$12.7 million, compared to net income of \$113.0 million for 2002, a reduction of \$125.7 million, explained by the following:

- Effective January 1, 2002, the holder of 407 International Inc.'s subordinated convertible debenture ("Debenture") entered into an agreement with 407 International Inc. and its shareholders, whereby the holder irrevocably agreed to formally convert its Debenture into common shares of 407 International Inc. on May 6, 2004 or, subject to certain conditions, at an earlier date. This undertaking to convert into common shares is considered to be an immediate conversion of the Debenture, and **effective January 1, 2002**, has been accounted for as such, thereby diluting SNC-Lavalin's investment in the common shares of 407 International Inc. to 22.58% from 26.92%, and resulting in a **gain of \$14.7 million**.
- **In March 2002**, SNC-Lavalin sold 45.0 million shares (or 25.7%) of its 175.0 million share investment in 407 International Inc. to a third party for a total consideration of \$177.6 million, nearly four times its original value, resulting in a **net gain of \$115.2 million** (refer to note 3 to the audited consolidated financial statements), and a further reduction in SNC-Lavalin's investment in the common shares of 407 International Inc. to 16.77%.
- A **\$4.2 million lower proportionate share of accounting losses** from Highway 407, including consolidation eliminations.

Net accounting loss (at 100% level) was \$75.2 million in 2003 compared with \$99.1 million in 2002. The decrease in the net accounting loss was due in large part to higher revenues, partially offset by growth in the provision for delinquent accounts as well as increased depreciation and interest expense in 2003. Highway 407 anticipates a trend of diminishing losses into future periods as it steadily progresses towards a break-even point in earnings.

Highway 407's revenues for the year ended December 31, 2003 increased by 12.4% over last year, primarily as a result of a toll rate increase in February 2003, coupled with a growth in traffic in 2003. The average workday number of trips was 313,760, 1.6% higher than 2002, and vehicle kilometres travelled (VKT), which represents the total kilometres travelled for all vehicles, was 1,823.6 million in 2003 compared with 1,806.1 million in 2002.

## Management's Discussion and Analysis

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As noted in previous years, SNC-Lavalin does not anticipate an accounting profit from its investment for the initial years of the 99-year concession. This is not unusual since highway concessions incur net accounting losses in the initial years, mainly due to the high levels of financing costs. Positive cash flows generated from Highway 407, whereby the refinancing of the original debt was structured so as to match the expected revenues, have enabled 407 International Inc. to make dividend payments to its investors despite net accounting losses. Accordingly, Highway 407 paid SNC-Lavalin dividends totalling \$11.1 million in 2003 (\$11.8 million in 2002), and expects to generate sufficient cash on a prospective basis to continue to pay quarterly dividends.

Following the October 2003 election of the Liberal government in the Province of Ontario, the Ministry of Transportation (MTO) is challenging certain clauses in the Concession and Ground Lease Agreement as signed in April of 1999 between the Province and Highway 407. Notably, the MTO is challenging the right to increase tolls and the establishment of the base year. As a result of these legal disputes, the ratings agencies, Standard & Poor's and Dominion Bond Rating Service, placed their respective ratings of 407 International Inc. on Credit Watch With Negative Implications and Under Review With Developing Implications. Highway 407's management believes that these disputes have no merit and expects to resolve these disputes without a material impact on its business or its financial position. Highway 407's management therefore expects its credit ratings to be removed from the rating agencies' Credit Watch and Under Review conditions once the disputes have been resolved.

## 8. FINANCIAL POSITION AND RESOURCES

### 8.1 BALANCE SHEET

The following table shows the Company's audited consolidated balance sheet with Highway 407 accounted for using the equity method, as opposed to proportionate consolidation (refer to note 2 to the audited consolidated financial statements).

AT DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003	2002
<b>ASSETS</b>		
Cash, cash equivalents and short-term investments	\$ 484,662	\$ 479,724
Other current assets	932,346	880,678
	<u>1,417,008</u>	<u>1,360,402</u>
Property, plant and equipment	244,689	256,475
Investment in 407 International Inc.	33,912	57,640
Goodwill	87,438	66,083
Other assets		
Equity investments	143,616	141,204
Other	30,531	26,235
	<u>\$ 1,957,194</u>	<u>\$ 1,908,039</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$ 1,094,410	\$ 1,109,793
Long-term debt		
Recourse	104,154	104,028
Non-recourse	46,281	50,283
Other liabilities	54,040	46,821
	<u>1,298,885</u>	<u>1,310,925</u>
Shareholders' equity	658,309	597,114
	<u>\$ 1,957,194</u>	<u>\$ 1,908,039</u>



## Management's Discussion and Analysis

Total assets, which were \$2.0 billion as at December 31, 2003 compared with \$1.9 billion as at December 31, 2002, and total liabilities, which were \$1.3 billion as at December 31, 2003 in line with 2002, were impacted by the following:

- An increase in the working capital position as at December 31, 2003 compared to 2002 resulting mainly from the continued earnings contributions from operations;
- Acquisitions of property, plant and equipment which were lower than the related depreciation, resulting in a decrease in 2003;
- A decrease in the investment in 407 International Inc. due to SNC-Lavalin's proportionate share of net accounting losses and dividends from Highway 407;
- An increase in goodwill as a result of acquisitions in the current year (refer to note 3 to the audited consolidated financial statements). As at December 31, 2003 goodwill was \$87.4 million, representing 13.3% of the consolidated shareholders' equity, compared with 11.1% in 2002;
- A slight increase of \$2.4 million in equity investments in 2003.

Shareholders' equity was \$658.3 million at December 31, 2003, up from \$597.1 million from the prior year, primarily due to net income for the year combined with the issuance of shares pursuant to the exercise of stock options, partially offset by dividends and from repurchases of shares in 2003.

Total assets were \$1.4 billion as at December 31, 2001, total liabilities were \$1.0 billion as at December 31, 2001 and shareholders' equity totalled \$443.0 million as at December 31, 2001. The increase in shareholders' equity from 2001 to 2002 was due in large part to the contributions from operations and from the sale of a portion of SNC-Lavalin's investment in Highway 407 together with the issuance of shares pursuant to the exercise of stock options, partially offset by dividends and from repurchases of shares in 2002, as well as a transitional goodwill impairment of \$25.5 million which was charged to opening retained earnings as at January 1, 2002.

### 8.2 NET CASH POSITION (EXCLUDING HIGHWAY 407)

AS AT DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002
Cash, cash equivalents and short-term investments	\$ 484.7	\$ 479.7
Short-term and long-term debt	153.7	157.7
<b>NET CASH POSITION</b>	<b>\$ 331.0</b>	<b>\$ 322.0</b>

The 2003 net cash position remained in line with 2002, as the increases resulting from positive cash flows from operations including dividends from investments, were offset by business acquisitions, dividends paid to shareholders, the \$69.1 million acquisition of Murraylink transmission assets and other capital expenditures.

### 8.3 STATEMENT OF CASH FLOW (EXCLUDING HIGHWAY 407)

**Cash position**, which groups cash and cash equivalents as well as short-term investments (refer to note 2 to the audited consolidated financial statements), **excluding Highway 407 totalled \$484.7 million in 2003** compared with \$479.7 million in 2002.

## Management's Discussion and Analysis

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### STATEMENT OF CASH FLOW (EXCLUDING HIGHWAY 407)

YEARS ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net income, excluding Highway 407	\$ 99.2	\$ 89.5
Depreciation and amortization	44.1	42.2
Other	49.4	36.8
	<u>192.7</u>	<u>168.5</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of transmission assets	(69.1)	(11.3)
Acquisition of other property, plant and equipment	(26.2)	(31.9)
Proceeds from disposal of a portion of the investment in 407 International Inc.	—	177.6
Acquisition of businesses and investments	(26.7)	(105.0)
Income taxes related to the gain on disposal of the investment in 407 International Inc.	(28.1)	—
Other	(11.6)	(4.6)
	<u>(161.7)</u>	<u>24.8</u>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from issuance of shares	17.0	11.7
Redemption of shares	(23.9)	(17.3)
Dividends paid	(20.2)	(17.6)
Other	1.1	8.0
	<u>(26.0)</u>	<u>(15.2)</u>
<b>NET INCREASE IN CASH POSITION</b>	5.0	178.1
<b>CASH POSITION AT BEGINNING OF YEAR</b>	479.7	301.6
<b>CASH POSITION AT END OF YEAR</b>	<u>\$ 484.7</u>	<u>\$ 479.7</u>

#### 8.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities was \$192.7 million in 2003 compared to \$168.5 million in 2002, due mainly to the following:

- Continued earnings growth;
- Increase in cash generated from working capital resulting mainly from project advances in the Power, Chemicals and Petroleum and Infrastructure and Environment segments.

#### 8.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was \$161.7 million in 2003 compared with cash generated of \$24.8 million in 2002.

#### 2003 Major Investing activities were as follows:

- The payment of \$69.1 million in 2003, representing SNC-Lavalin's 50% share of the current liability, that had been recorded in the third quarter of 2002, relating to the Murraylink transmission assets;
- Taxes paid for the 2002 gain on the sale of a portion of SNC-Lavalin's investment in 407 International Inc. totalling \$28.1 million;
- The acquisitions of GDS Engineers, Inc. in January 2003 and of Trouvin, Fimatec France and S.A.M. Fimatec in June 2003 for a total of \$26.7 million;
- Cash was also used for acquisitions of other property, plant and equipment totalling \$26.2 million versus depreciation of other property, plant and equipment of \$37.6 million. As in the previous year, most of these acquisitions were related to information technology.

## Management's Discussion and Analysis

### 2002 Major Investing activities were as follows:

- Proceeds from disposal of a portion of SNC-Lavalin's investment in 407 International Inc. totalling \$177.6 million;
- Acquisition of businesses and investments totalling \$105.0 million mainly relating to the AltaLink and Malta International Airport investments;
- Acquisitions of other property, plant and equipment of \$31.9 million versus depreciation of other property, plant and equipment of \$35.9 million.

### 8.3.3 CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities was \$26.0 million in 2003 compared with \$15.2 million in 2002.

- The Company repurchased shares, under the normal course issuer bid, for a total amount of \$23.9 million in 2003 (617,200 shares at an average price of \$38.77) and \$17.3 million in 2002 (521,900 shares at an average price of \$33.21). Based on the Company's strong 2003 year-end financial position, the Company expects to be at least as active in repurchasing its shares, and proposes to introduce another one-year normal course issuer bid program when the current program expires in May 2004.
- Dividend per share, which increased from \$0.07 to \$0.08 for the fourth quarter of 2001, and from \$0.09 to \$0.10 for the fourth quarter of 2002, remained at the same level for the first three quarters of 2003, which resulted in a cash outflow of \$20.2 million (\$17.6 million in 2002 and \$13.4 million in 2001). Management is positive about the potential growth of the Company's current operations and confident it will continue receiving dividends from its concession investments. Based on these two sources of cash and the Company's strong financial position, the Board of Directors has decided to increase the quarterly dividend paid to shareholders from \$0.10 per share to \$0.13 per share for the fourth quarter of 2003.
- Cash was generated from the issuance of shares pursuant to the exercise of stock options amounting to \$17.0 million in 2003 (1,128,138 stock options at an average price of \$15.03) and \$11.7 million in 2002 (865,954 stock options at an average price of \$13.53). As at December 31, 2003, there were 1,382,614 options outstanding with exercise prices varying from \$10.10 to \$36.55 per Common Share. The Board of Directors proposes to replenish the stock option reserve by obtaining the shareholders approval to issue up to 1,217,000 additional stock options, which corresponds to less than five percent of the Common Shares of the Company outstanding as at March 19, 2004, less the number of options outstanding (i.e., granted but not exercised) as at the same date under previous stock option plans.

### 8.4 REVOLVING CREDIT FACILITIES

The Company has access to \$457.5 million of long-term revolving lines of credit. As at December 31, 2003, \$276.2 million of the Company's credit lines remained unused, with the balance of \$181.3 million used for the issuance of letters of credit. In addition, the Company has access to other lines of credit specifically for letters of credit.

Letters of credit are provided in the normal course of operations as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. Historically, SNC-Lavalin has fulfilled the necessary contractual obligations thereby obtaining release of such letters of credit upon completion.

### 8.5 WORKING CAPITAL

Working capital excluding Highway 407 as at December 31, 2003 was \$322.6 million, compared with \$250.6 million in 2002. The current ratio was 1.29 as at December 31, 2003 compared with 1.23 in 2002.



## Management's Discussion and Analysis

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### WORKING CAPITAL (EXCLUDING HIGHWAY 407)

AT DECEMBER 31

(IN THOUSANDS OF DOLLARS, EXCEPT CURRENT RATIO)

	2003	2002
Current Assets	\$ 1,417,008	\$ 1,360,402
Current Liabilities	1,094,410	1,109,793
Working Capital	\$ 322,598	\$ 250,609
Current Ratio	1.29	1.23

### 8.6 DEBT TO CAPITAL

The Company targets its recourse debt to capital ratio not to exceed 30%. As at December 31, 2003, the Company's recourse debt to capital ratio was 14:86.

### 8.7 CREDIT RATINGS

Both Dominion Bond Rating Service Limited (DBRS) and Standard & Poor's continue to maintain SNC-Lavalin Group Inc's BBB rating with a stable outlook.

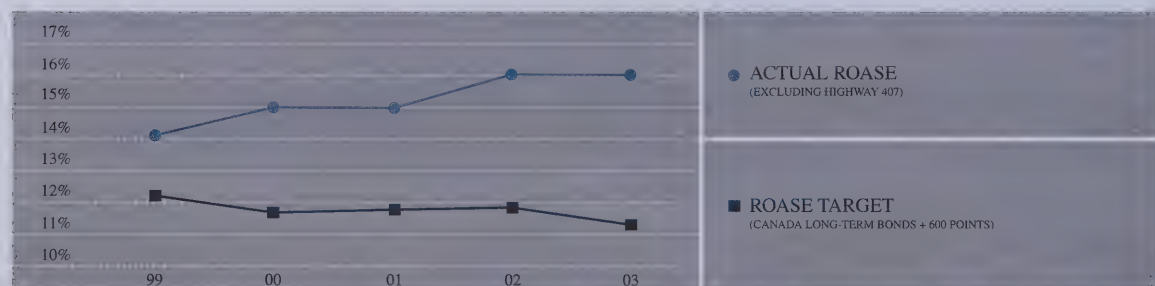
### 8.8 FINANCIAL POSITION, ROASE AND ROCE

The Company has cash and short-term investments as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business and concession acquisitions, share repurchases and business growth. In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank credit lines and capacity to absorb project net retained risks on the one hand, and to optimize return on weighted average shareholders' equity on the other.

#### 8.8.1 RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY (ROASE)

ROASE, as calculated by the Company, corresponds to after-tax earnings divided by a trailing thirteen-month weighted average shareholders' equity.

ROASE excluding Highway 407 was 15.8% in 2003, in line with ROASE of 15.9% in 2002, which is considerably higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e.: 11.35% in 2003 and 11.68% in 2002).



#### 8.8.2 RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE, as calculated by the Company, corresponds to after-tax earnings before interest divided by total capital (average shareholders' equity plus average short and long-term borrowings less average cash position). The ROCE calculation is an indicator the Company uses to evaluate itself with its peers and is not only an evaluation of the Company's return on capital, but also a gauge of the strength of the Company's financial position, whereby a company with a better net cash position will show a higher ROCE.

## Management's Discussion and Analysis

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With the Company's strong financial position and results in 2003, **ROCE excluding Highway 407 was 34.9% in 2003** compared with 34.2% in 2002, all while surpassing its ROASE objective, as mentioned above, reflecting the Company's ability to generate returns for shareholders and maintain a strong financial position.

### 8.9 CONTRACTUAL OBLIGATIONS

In the normal course of business, SNC-Lavalin has various contractual obligations. The following table provides a summary of SNC-Lavalin's future contractual commitments relating specifically to long-term debt and rental obligations:

#### CONTRACTUAL OBLIGATIONS (EXCLUDING HIGHWAY 407)

(IN THOUSANDS OF DOLLARS)	2004	2005-2006	2007-2008	THEREAFTER	TOTAL
Long-term debt	\$ 3,249	\$ 6,561	\$ 30,097	\$ 113,777	\$ 153,684
Rental obligations	22,742	33,013	22,074	17,327	95,156
Total	\$ 25,991	\$ 39,574	\$ 52,171	\$ 131,104	\$ 248,840

Long-term debt is reflected on the audited consolidated balance sheet, while rental obligations are not recorded on the audited consolidated balance sheet (refer to note 17 to the audited consolidated financial statements). SNC-Lavalin owns its head office in Montreal, and has rental obligations for its other offices in Canada and throughout its international presence.

### 8.10 OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that are likely to have a current or future effect on the results of operations or its financial condition.

## 9. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial conditions and related disclosure of contingent liabilities at the date of the financial statements. Actual results may differ from those estimates under different assumptions or conditions. The following are our most critical accounting estimates, which are those that require management's most difficult, subjective and complex judgements, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

### REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities. Revenues on both services and packages contracts are derived primarily from cost-plus reimbursable contracts and fixed-price contracts. On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. On fixed-price contracts, revenues are recorded on the percentage-of-completion basis. The percentage of completion is determined by dividing the cumulative cost incurred as at the balance sheet date by the total of incurred and anticipated costs for completing a contract. This method of revenue recognition requires SNC-Lavalin to prepare cost estimates to complete contracts in progress, and in making such estimates, judgments are required to evaluate contingencies such as potential variances in scheduling, the cost of materials, labour costs and productivity, the impact of change orders or liability claims.

SNC-Lavalin recognizes claims for recovery of incurred costs when there is reasonable assurance that the claim will result in additional contract revenue and when the amount of the claim can be reliably established.

## Management's Discussion and Analysis

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These estimates are based on SNC-Lavalin's business practices as well as its historical experience, and management regularly reviews underlying estimates of project profitability.

### ASSET IMPAIRMENT

Asset impairment incorporates an evaluation of SNC-Lavalin's goodwill as well as its long-lived assets for impairment.

**Goodwill** is no longer amortized, but is instead subject to at least an annual assessment of impairment by applying a fair value based test at the reporting unit level. An impairment loss is recognized to the extent that the carrying amount of goodwill for each reporting unit exceeds its estimated fair market value. The fair market values of the reporting units are derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. Management uses judgment to estimate the fair market value of the reporting units, and changes in estimates can affect the value of the reported goodwill. The Company performs the annual review of goodwill as at October 31 of each year, and based on the impairment test performed as at October 31, 2003, the Company concluded that no goodwill impairment charge was required.

In addition, SNC-Lavalin reviews its **long-lived assets** for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. In order to determine whether impairment exists, management compares the estimated undiscounted future cash flows, that are projected to be generated by those assets to their respective carrying value. If the undiscounted future cash flows are lower than the carrying value, then an impairment loss is recognized. The Company concluded that no impairment charge was required for its long-lived assets.

### PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

SNC-Lavalin's obligations and expenses relating to pension and other post-retirement benefits are determined using actuarial valuations, and are dependent on significant weighted average assumptions such as the expected long-term rate of return on plan assets and the rate of compensation increase, as determined by management. While management believes these assumptions are reasonable, differences in actual results or changes in assumptions could have an impact on the obligations and expenses recorded by the Company. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, and generally impact the obligations and expense in future periods (refer to note 15 to the audited consolidated financial statements).

## 10. ACCOUNTING CHANGES

### STOCK-BASED COMPENSATION

In September 2003, the Canadian Institute of Chartered Accountants (CICA) amended the "Stock-Based Compensation and Other Stock-Based Payments" section of the CICA Handbook. Under the amended CICA section, the Company elected, in 2003, to continue its current policy of not recording any compensation expense on the grant of stock options to employees and directors, and provided the necessary disclosure required under the recommendations of the CICA (refer to notes 1o and 10d to the audited consolidated financial statements). Effective January 1, 2004, the CICA Handbook section requires that all share-based compensation be measured on a fair value basis, and that the related compensation expense be recognized in the income statement. Management will adopt these new recommendations on a retroactive basis for options granted since January 1, 2002, without restating prior periods.

### GUARANTEES

In February 2003, the CICA issued Accounting Guideline 14 (AcG-14) entitled "Disclosure of Guarantees", which identifies disclosure requirements for certain guarantees, for annual financial statements starting on or after January 1, 2003. As at December 31, 2003, SNC-Lavalin had no arrangements that met the definition of a guarantee under AcG-14, which could have a material effect, individually or collectively, on the Company's financial position, results of operations or cash flows.



## Management's Discussion and Analysis

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### HEDGING RELATIONSHIPS

The CICA issued Accounting Guideline 13 (AcG-13) entitled "Hedging Relationships" in December 2001 and amended it to its final version in June 2003, which deals with the identification, documentation, designation and effectiveness of hedges, as well as the discontinuance of hedge accounting. This guidance is applicable to relationships in effect for annual financial statements starting on or after July 1, 2003. SNC-Lavalin's hedging relationships are documented according to related foreign exchange transactions, which in turn are continuously monitored to ensure effectiveness, and as such the adoption of this new recommendation is not expected to have a material impact on the Company's consolidated financial statements.

## 11. RISK MANAGEMENT

### OVERVIEW

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus, fixed fee, unit price, and firm price contracts as well as long-term outsourcing, investments in infrastructure-type concessions and other concession-type arrangements. SNC-Lavalin has developed and applies rigorous risk assessment, mitigation and management practices to reduce the nature and extent of the financial, technical and legal risks under each of these types of contractual agreements.

### RISK MANAGEMENT PRACTICES

SNC-Lavalin's continued commitment to sound risk management practices when underwriting and undertaking services and packages type contracts, includes technical risk assessment, rigorous drafting and legal review of contracts, applying stringent cost and schedule control of projects, the regular review of project forecasts to complete, the structuring of positive cash flow arrangements on projects, securing project insurance, obtaining third party guarantees and other risk mitigating measures. Maintaining insurance coverage for various aspects of its business and operations is an important element in SNC-Lavalin's risk management process. SNC-Lavalin elects, at times, to retain a portion of losses that may occur by applying selective self-insurance practices and professionally managing such retention through its regulated captive insurance company.

Furthermore, risks associated with certain categories of projects are analyzed by a Risk Evaluation Committee composed of managers with appropriate expertise who are responsible for recommending to senior management a course of action in respect of the project under consideration. In addition, the Company has a Bid and Investment Approval Committee composed of senior executives, which is responsible for considering bids on certain categories of projects, and proposed acquisitions or dispositions of businesses.

While management is positive about the Company's long-term outlook, SNC-Lavalin is subject to the following **risks and uncertainties**:

#### COST OVERRUNS

SNC-Lavalin bears all or a significant portion of the risk for cost overruns for fixed-price contracts. Contract revenues and costs are established, in part, on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, price, availability of labour, equipment and materials and other requirements that may affect project cost.

#### PROJECT PERFORMANCE

In certain instances, SNC-Lavalin may guarantee a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. Should the project or facility subsequently fail to meet the schedule or performance standards, SNC-Lavalin may incur additional costs.

#### CONTRACT AWARDS

Obtaining new awards, which is a key component for the sustainability of profits, is a risk factor for which the diversity of SNC-Lavalin's activities, industry segments and geographic base have proven to be mitigating factors.

## Management's Discussion and Analysis

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### BACKLOG

Backlog includes contract awards that are considered firm as well as a five-year rolling basis for recurring revenues on certain concession-type agreements and for Highway 407, and is thus an indication of future revenues. However, there can be no assurance that cancellations or scope adjustments will not occur, or when revenues and earnings from such backlog will be realized.

### CONCESSION INVESTMENTS

Certain concession activities include SNC-Lavalin's investments in infrastructure-type concessions as well as investments in other concession-type projects. The Company strives to limit its risk to the investment value in such concessions, whereby all risks associated with the operation and financing of these concessions remain at the concessionaire level. Erosion of the Company's investment value, which is dependent on the ability of the concession to attain its revenues and cost projections as well as the ability to obtain financing, is mitigated by sound risk management practices when investing in such concessions, such as:

- Independence of the Investment division from the engineering and construction groups within SNC-Lavalin;
- Detailed review and structuring of concession contract arrangements;
- Detailed analysis of the risks specific to each investment, such as environment and supply and demand estimates;
- Ensuring the financial strength of equity partners, as well as ensuring that SNC-Lavalin's interests in the concession are well aligned with those of its equity partners;
- In-depth financial modeling performed in-house, coupled with independent third party modeling review;
- Independent third party consultants to review financial projections and forecasts performed in-house.

### JOINT VENTURE PARTNERS

The success of its joint ventures relies on the satisfactory performance of SNC-Lavalin's joint venture partners of their joint venture obligations. The failure of the joint venture partners to perform their obligations could impose on SNC-Lavalin additional financial and performance obligations that could result in increased costs.

### FOREIGN CURRENCY RISK

The significant effect of international business volume could expose SNC-Lavalin to greater foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure.

### CREDIT RISK

The risk of loss due to the client's inability to fulfill its obligations with respect to accounts receivable and contracts in progress. The concentration of credit risk is limited due to the large number of clients comprising SNC-Lavalin's client base, and their dispersion across different business and geographic areas.

### ECONOMIC AND POLITICAL CONDITIONS

A significant portion of the Company's revenues is attributable to projects in international markets, which exposes the Company to a number of risks, such as: uncertain economic conditions in the countries in which SNC-Lavalin does business, abrupt changes in foreign government policies and regulations, restrictions on the right to convert and repatriate currency, political risks due to international hostilities, and the lack of well-developed legal systems in some countries, which could make it difficult to enforce SNC-Lavalin's contractual rights. SNC-Lavalin has about 40 years of involvement in international markets, which provides a valuable source of experience in assessing risks related to economic and political conditions.

## Management's Discussion and Analysis

### 12. QUARTERLY INFORMATION

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

2003

	FIRST	SECOND	THIRD	FOURTH
Consolidated revenues	\$ 883,287	\$ 846,578	\$ 714,397	\$ 820,648
Net income (loss)				
Excluding Highway 407	\$ 21,885	\$ 26,479	\$ 25,511	\$ 25,310
From Highway 407	(3,602)	(3,306)	(231)	(5,518)
	\$ 18,283	\$ 23,173	\$ 25,280	\$ 19,792
Basic earnings per share				
Excluding Highway 407	\$ 0.43	\$ 0.53	\$ 0.51	\$ 0.50
From Highway 407	(0.07)	(0.07)	(0.01)	(0.11)
	\$ 0.36	\$ 0.46	\$ 0.50	\$ 0.39
Diluted earnings per share				
Excluding Highway 407	\$ 0.43	\$ 0.52	\$ 0.50	\$ 0.49
From Highway 407	(0.07)	(0.07)	(0.01)	(0.11)
	\$ 0.36	\$ 0.45	\$ 0.49	\$ 0.38
Dividend declared per share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.13

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

2002

	FIRST	SECOND	THIRD	FOURTH
Consolidated revenues	\$ 627,161	\$ 815,305	\$ 1,002,195	\$ 986,989
Net income (loss)				
Excluding Highway 407	\$ 19,401	\$ 23,673	\$ 22,875	\$ 23,562
From Highway 407	124,648	(3,291)	(2,723)	(5,615)
	\$ 144,049	\$ 20,382	\$ 20,152	\$ 17,947
Basic earnings per share				
Excluding Highway 407	\$ 0.39	\$ 0.47	\$ 0.46	\$ 0.47
From Highway 407	2.49	(0.06)	(0.06)	(0.11)
	\$ 2.88	\$ 0.41	\$ 0.40	\$ 0.36
Diluted earnings per share				
Excluding Highway 407	\$ 0.38	\$ 0.46	\$ 0.45	\$ 0.46
From Highway 407	2.44	(0.06)	(0.06)	(0.11)
	\$ 2.82	\$ 0.40	\$ 0.39	\$ 0.35
Dividend declared per share	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.10



## Management's Discussion and Analysis

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### FOURTH QUARTER RESULTS

**Consolidated net income for the fourth quarter of 2003 was \$19.8 million** compared to \$17.9 million for the same period last year. Excluding Highway 407, net income for the fourth quarter of 2003 increased by 7.4% to \$25.3 million compared to \$23.6 million last year. The increase reflects higher contributions from the Mining and Metallurgy and Facilities and Operations Management segments together with a decrease in income-taxes for the fourth quarter of 2003 compared to 2002. This increase was partially offset by decreases in the Chemicals and Petroleum and Infrastructure and Environment segments. SNC-Lavalin's share of the net accounting loss from Highway 407 was in line with last year, totalling \$5.5 million in the fourth quarter of 2003 compared to \$5.6 million in the fourth quarter of 2002.

**Consolidated revenues for the fourth quarter were \$820.6 million** compared to \$987.0 million last year. The decrease was mainly due to the completion in 2003 of certain "gas-fired power plants" which were awarded in May 2002, partially offset by increased activity in the Chemicals and Petroleum segment.

The overall backlog increased to **\$4.2 billion at the end of December 2003**, up from \$4.1 billion at the end of the third quarter of 2003.

At the end of December 2003, the Company's **consolidated cash, cash equivalents and short-term investments totalled \$495.8 million**, up from \$475.9 million at the end of the third quarter of 2003.

The Company's quarterly and annual financial information and its Annual Information Form are available on SEDAR ([www.sedar.com](http://www.sedar.com)), as well as on the Company's website ([www.snc-lavalin.com](http://www.snc-lavalin.com)).

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of SNC-Lavalin Group Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate for the circumstances.

The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

SNC-Lavalin maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that SNC-Lavalin's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are outside directors. The Audit Committee meets periodically with management, as well as with the internal and external auditors, to discuss internal controls, accounting, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited, on behalf of the shareholders, by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the Audit Committee.

**JACQUES LAMARRE**

PRESIDENT AND  
CHIEF EXECUTIVE OFFICER

MONTREAL, CANADA  
FEBRUARY 13, 2004

**GILLES LARAMÉE**

EXECUTIVE VICE-PRESIDENT AND  
CHIEF FINANCIAL OFFICER

## Auditors' Report

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To the shareholders of SNC-Lavalin Group Inc.

We have audited the consolidated balance sheet of SNC-Lavalin Group Inc. as at December 31, 2003 and the consolidated statements of income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of SNC-Lavalin Group Inc. as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 14, 2003.

**DELOITTE & TOUCHE LLP**

CHARTERED ACCOUNTANTS

MONTREAL, CANADA  
FEBRUARY 13, 2004



## Consolidated Statements of Income

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YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2003	2002
Revenues	<u>\$ 3,264,910</u>	<u>\$ 3,431,650</u>
Gross margin	\$ 498,693	\$ 466,222
Administrative, marketing and other expenses	311,852	297,993
Interest and capital taxes	52,039	<u>56,985</u>
Income before gains and income taxes	134,802	111,244
Gain on disposal of a portion of the investment in 407 International Inc. (note 3)	—	149,350
Gain on dilution of investment in 407 International Inc. (note 3)	<u>—</u>	<u>14,673</u>
Income before income taxes	134,802	275,267
Income taxes (note 12)	48,274	72,737
Net income	<u>\$ 86,528</u>	<u>\$ 202,530</u>
Earnings per share (note 1n)		
Basic	<u>\$ 1.72</u>	<u>\$ 4.04</u>
Diluted	<u>\$ 1.69</u>	<u>\$ 3.95</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

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YEAR ENDED DECEMBER 31

(IN THOUSANDS)

2003

	SHARE CAPITAL		CUMULATIVE TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	COMMON SHARES	AMOUNT			
<b>BALANCE AT BEGINNING OF YEAR</b>	<b>50,157</b>	<b>\$ 323,524</b>	<b>\$ 2,887</b>	<b>\$ 270,703</b>	<b>\$ 597,114</b>
Net income	—	—	—	86,528	86,528
Cumulative translation adjustment (note 1c)	—	—	1,804	—	1,804
Dividends	—	—	—	(20,163)	(20,163)
Shares issued under stock option plan	1,128	16,954	—	—	16,954
Shares redeemed and cancelled (note 10e)	(617)	(4,098)	—	(19,830)	(23,928)
<b>BALANCE AT END OF YEAR</b>	<b>50,668</b>	<b>\$ 336,380</b>	<b>\$ 4,691</b>	<b>\$ 317,238</b>	<b>\$ 658,309</b>

YEAR ENDED DECEMBER 31

(IN THOUSANDS)

2002

	SHARE CAPITAL		CUMULATIVE TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	COMMON SHARES	AMOUNT			
<b>BALANCE AT BEGINNING OF YEAR</b>	<b>49,813</b>	<b>\$ 315,171</b>	<b>\$ 2,587</b>	<b>\$ 99,706</b>	<b>\$ 417,464</b>
Net income	—	—	—	202,530	202,530
Cumulative translation adjustment (note 1c)	—	—	300	—	300
Dividends	—	—	—	(17,568)	(17,568)
Shares issued under stock option plan	866	11,719	—	—	11,719
Shares redeemed and cancelled (note 10e)	(522)	(3,366)	—	(13,965)	(17,331)
<b>BALANCE AT END OF YEAR</b>	<b>50,157</b>	<b>\$ 323,524</b>	<b>\$ 2,887</b>	<b>\$ 270,703</b>	<b>\$ 597,114</b>

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheets

AT DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003	2002
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 353,504	\$ 491,036
Short-term investments	142,296	544
Accounts receivable	571,861	481,906
Contracts in progress and inventories (note 5)	369,224	403,920
<b>TOTAL CURRENT ASSETS</b>	<b>1,436,885</b>	<b>1,377,406</b>
Property, plant and equipment (note 6)	606,000	618,609
Goodwill (note 7)	87,438	66,083
Other assets (note 8)	499,184	491,906
<b>TOTAL ASSETS</b>	<b>\$ 2,629,507</b>	<b>\$ 2,554,004</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued charges	\$ 752,222	\$ 802,123
Downpayments on contracts	249,902	218,741
Deferred revenues	96,556	93,518
Current portion of non-recourse long-term debt (note 9)	3,816	38,824
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,102,496</b>	<b>1,153,206</b>
Long-term debt (note 9)		
Recourse	104,154	104,028
Non-recourse	705,232	646,896
Other liabilities	59,316	52,760
<b>TOTAL LIABILITIES</b>	<b>1,971,198</b>	<b>1,956,890</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>658,309</b>	<b>597,114</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,629,507</b>	<b>\$ 2,554,004</b>

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD:

JACQUES LAMARRE,

DIRECTOR

EDYTHE A. PARKINSON-MARCOUX,

DIRECTOR



## Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS)

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 86,528	\$ 202,530
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	53,025	50,865
Accrued interest	17,105	15,751
Gain on disposal of a portion of the investment in 407 International Inc., net of income taxes (note 3)	—	(121,266)
Gain on dilution of investment in 407 International Inc. (note 3)	—	(14,673)
Other	(14,895)	(6,782)
Dividends received from equity investments	5,640	9,891
	<u>147,403</u>	<u>136,316</u>
Net change in non-cash working capital items	42,570	26,421
	<u>189,973</u>	<u>162,737</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment		
Transmission assets	(69,085)	(11,310)
Other	(31,186)	(44,944)
Short-term investments	(141,752)	20,759
Acquisition of businesses and investments (note 3)	(26,744)	(104,984)
Proceeds from disposal of a portion of the investment in 407 International Inc. (note 3)	—	177,564
Income taxes related to the gain on disposal of a portion of the investment in 407 International Inc. (note 3)	(28,084)	—
Restricted cash	(2,725)	14,788
Other	(12,076)	(10,660)
	<u>(311,652)</u>	<u>41,213</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(38,597)	(12,040)
Increase in long-term debt	45,820	16,133
Net proceeds from issuance of shares	16,954	11,719
Redemption of shares (note 10e)	(23,928)	(17,331)
Dividends paid	(20,163)	(17,568)
Other	4,061	4,239
	<u>(15,853)</u>	<u>(14,848)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(137,532)</u>	<u>189,102</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>491,036</u>	<u>301,934</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>353,504</u>	<u>491,036</u>
Short-term investments	142,296	544
<b>CASH POSITION AT END OF YEAR</b>	<u>\$ 495,800</u>	<u>\$ 491,580</u>
<b>CASH PAID FOR INTEREST</b>	<u>\$ 41,322</u>	<u>\$ 45,478</u>
<b>CASH PAID FOR INCOME TAXES</b>	<u>\$ 79,129</u>	<u>\$ 44,536</u>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

DECEMBER 31, 2003 AND 2002

(ALL DOLLAR FIGURES IN TABLES ARE EXPRESSED IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A) PRINCIPLES OF CONSOLIDATION AND PRESENTATION

The consolidated financial statements of SNC-Lavalin Group Inc. (the "Company"), incorporated under the Canada Business Corporations Act, are prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company, its subsidiaries and its pro-rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. "SNC-Lavalin" means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company, or one or more of its subsidiaries or joint ventures. Equity investments include investments in companies subject to significant influence, which are accounted for using the equity method.

SNC-Lavalin owns 16.77% of 407 International Inc., the principal business of which is the ownership of 407 ETR and through 407 ETR operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. In the consolidated financial statements of the Company, "Highway 407" means SNC-Lavalin's proportionate share of the results of 407 International Inc., including consolidation eliminations, and gains on dilution and disposal of a portion of the investment in 407 International Inc.

Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides additional information, in note 2, whereby Highway 407 is accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the readers a greater understanding of the Company's underlying assets, earnings base and financial resources.

### B) USE OF ESTIMATES

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### C) TRANSLATION OF FOREIGN CURRENCIES

For self-sustaining foreign operations, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of SNC-Lavalin's net equity investment in these operations are included as part of shareholder's equity, under "Cumulative Translation Adjustment".

For integrated foreign operations and foreign transactions of Canadian operations, monetary items are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, non-monetary items are translated using the exchange rate in effect when the assets were acquired or obligations incurred and revenues and expenses are translated at the average monthly exchange rates during the year. SNC-Lavalin enters into forward contracts to hedge exposure to fluctuations in foreign exchange rates. The Company does not enter into forward foreign exchange contracts for speculative purposes. All forward contracts are designated to specifically identified foreign exchange exposures. Any gains and losses on forward foreign exchange contracts related to future transactions are charged to income on a basis that corresponds with the recognition of the related future foreign currency transactions.

## Notes to Consolidated Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D) REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities.

##### SERVICES AND PACKAGES

Services revenues are generated by providing professional services, which include engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning. Packages revenues, in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.

Revenues on both services and packages contracts are derived primarily from cost-plus reimbursable contracts and fixed-price contracts. On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. On fixed-price contracts, revenues are recorded on the percentage-of-completion basis. The percentage of completion is determined by dividing the cumulative cost incurred as at the balance sheet date by the total of incurred and anticipated costs for completing a contract.

The value of goods and services purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

All known or anticipated losses are provided for in their entirety without regard to the percentage of completion. Estimated revenues on contracts include future revenues from claims when such additional revenues can be reliably established. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated cost and revenue.

Any billings in advance of services rendered are recorded as deferred revenues.

##### CONCESSIONS

SNC-Lavalin's activities from investments in infrastructure-type concessions, together with long-term outsourcing and other concession-type arrangements are reported as "Concessions" activities.

Revenues from Concessions activities are recorded based on units delivered, resources used or services rendered. For most of the contracts related to the supply of ammunition, revenues are recorded according to the percentage-of-completion method. Toll revenues, relating to Highway 407, are recorded upon computation of tolls resulting from a customer's utilization of the highway.

#### E) CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS

Cash equivalents consist of investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less. Short-term, liquid investments with original maturities of more than three months are included in short-term investments. Short-term investments are valued at the lower of cost and market.

#### F) CONTRACTS IN PROGRESS AND INVENTORIES

##### CONTRACTS IN PROGRESS

Contracts in progress relate to revenues recognized, according to the related revenue recognition method, in excess of amounts billed and are recorded at their estimated realizable value.

##### INVENTORIES

Inventories relate principally to contracts for the manufacturing of ammunition. For most of these contracts, work in progress and finished products are recorded at their estimated realizable value. Other inventories are recorded at the lower of average cost and replacement value or net realizable value.



## Notes to Consolidated Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. When permanent impairment occurs, property, plant and equipment are written down to their net recoverable amount. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets over their estimated useful lives, as follows:

##### FOR PROPERTY, PLANT AND EQUIPMENT EXCLUDING HIGHWAY 407

Buildings and surface installations, using the straight-line method over a period of 25 to 40 years or the diminishing balance method at rates varying from 5% to 7%.

Machinery, using the diminishing balance method at rates varying from 20% to 25%.

Office furniture and computer equipment, using the diminishing balance method at a rate of 20% and the straight-line method over a period of two years, respectively.

Transmission assets, using the straight-line method over a period of 44 years to reflect the weighted average useful life of the different components of these assets.

##### FOR HIGHWAY 407'S PROPERTY, PLANT AND EQUIPMENT

The toll highway is depreciated on a usage basis using projected revenues over 70 years to reflect the weighted average useful life of the different components of the highway.

Toll equipment is depreciated using the straight-line method over a period of ten years.

#### H) HIGHWAY 407'S CONCESSION RIGHT

Highway 407's concession right, which is included in "Other Assets", is amortized on a usage basis over its estimated useful life of 99 years to reflect the duration of the Concession and Ground Lease Agreement with the Province of Ontario.

#### I) DEFERRED FINANCING COSTS

Deferred financing costs, which are included in "Other Assets", are amortized using the straight-line method over the term of the related debt. The amortization of these charges is included as part of interest on long-term debt.

#### J) INCOME TAXES

The Company uses the liability method of accounting for income taxes, which requires the establishment of future tax assets and liabilities, as measured by enacted or substantially enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements.

#### K) MARKETING EXPENSES

All costs related to contract proposals are expensed as incurred.

#### L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally recognized conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are included in "Other Assets", and amortized when commercial production begins, using the straight-line method over a period of three to five years. Where permanent impairment occurs, such capitalized costs are written off. The unamortized amounts included in "Other Assets" totalled \$1,258,000 as at December 31, 2003 (2002: \$3,061,000).

## Notes to Consolidated Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### M) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

All accrued obligations for employee future benefits have been determined using the projected benefit method. In valuing post-retirement benefits as well as cost of pension benefits, the Company uses management's best estimate assumptions except for the discount rate, where the Company uses the market interest rate at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees to receive benefits under the plans. For valuing defined benefits pension plan assets, the Company uses market values.

#### N) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the year by the basic and diluted weighted average number of common shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, using the treasury stock method, with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

The weighted average number of outstanding shares used in the calculation of earnings per share for the year are:

(IN THOUSANDS)	2003	2002
Weighted average number of outstanding shares – basic	50,377	50,139
Dilutive effect of stock options	836	1,157
Weighted average number of outstanding shares – diluted	51,213	51,296

#### O) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

In September 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 3870 regarding "Stock-Based Compensation and Other Stock-Based Payments". Under the amended CICA Handbook Section, the Company elected, in 2003, to continue its current policy of not recording any compensation expense on the grant of stock options to employees and directors, and accordingly, the Company discloses, in note 10d, pro forma net income, pro forma basic earnings per share and pro forma diluted earnings per share as if these awards were accounted for using the fair value method. Consideration received from plan participants upon the exercise of stock options is credited to share capital. Effective January 1, 2004, the amended CICA Handbook Section requires that all share-based compensation be measured on a fair value basis, and that the related compensation expense be recognized in the income statement. This change will be applied retroactively without restatement for options granted since January 1, 2002.

## Notes to Consolidated Financial Statements

### 2. ACCOUNTING FOR HIGHWAY 407 - ADDITIONAL INFORMATION

In 1999, SNC-Lavalin and its partners acquired, through 407 International Inc., the right to operate 407 ETR under a 99-year lease from the Government of Ontario. 407 ETR is the world's first all-electronic open-access toll road. SNC-Lavalin invested, in 1999, \$175.0 million in common shares of 407 International Inc., representing a 26.92% non-diluted equity interest. In 2002, SNC-Lavalin's interest decreased to 16.77% following the dilution and disposal of a portion of SNC-Lavalin's investment (refer to note 3).

In accordance with the recommendations of the CICA, SNC-Lavalin's investment in Highway 407 is currently accounted for using the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro-rata share of each of the assets, liabilities, revenues and expenses of Highway 407.

Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides the following additional information about its accounts, in which the investment in Highway 407 is being accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the readers a greater understanding of the Company's underlying assets, earnings base and financial resources.

#### FINANCIAL POSITION

AT DECEMBER 31

	2003	2002
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 342,366	\$ 479,180
Short-term investments	142,296	544
Accounts receivable	563,122	476,758
Contracts in progress and inventories (note 5)	369,224	403,920
<b>TOTAL CURRENT ASSETS</b>	<b>1,417,008</b>	<b>1,360,402</b>
Property, plant and equipment (note 6)	244,689	256,475
Investment in 407 International Inc.	33,912	57,640
Goodwill (note 7)	87,438	66,083
Other assets (note 8)	174,147	167,439
<b>TOTAL ASSETS</b>	<b>\$ 1,957,194</b>	<b>\$ 1,908,039</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued charges	\$ 744,703	\$ 794,120
Downpayments on contracts	249,902	218,741
Deferred revenues	96,556	93,518
Current portion of non-recourse long-term debt	3,249	3,414
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,094,410</b>	<b>1,109,793</b>
Long-term debt (note 9)		
Recourse	104,154	104,028
Non-recourse	46,281	50,283
Other liabilities	54,040	46,821
<b>TOTAL LIABILITIES</b>	<b>1,298,885</b>	<b>1,310,925</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>658,309</b>	<b>597,114</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,957,194</b>	<b>\$ 1,908,039</b>



## Notes to Consolidated Financial Statements

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### 2. ACCOUNTING FOR HIGHWAY 407 - ADDITIONAL INFORMATION (CONTINUED)

The following table provides a reconciliation of SNC-Lavalin's investment in 407 International Inc. from its acquisition in 1999 to December 31:

	2003	2002
Investment at original cost	\$ 175,000	\$ 175,000
SNC-Lavalin's proportionate share of cumulative losses, net of consolidation eliminations	(104,688)	(92,031)
Gain on dilution (note 3)	14,673	14,673
Carrying value of shares sold (note 3)	(28,214)	(28,214)
Cumulative dividends received	(22,859)	(11,788)
<b>BALANCE AT END OF YEAR</b>	<b>\$ 33,912</b>	<b>\$ 57,640</b>

#### RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31

	2003	2002
Revenues	\$ 3,206,663	\$ 3,380,852
Gross margin	\$ 460,954	\$ 436,303
Administrative, marketing and other expenses	305,363	292,176
Interest and capital taxes	8,868	10,990
Income before income taxes	146,723	133,137
Income taxes (note 12)	47,538	43,626
Net income, excluding Highway 407	99,185	89,511
Highway 407, net loss before gains on disposal and dilution, net of consolidation eliminations	(12,657)	(16,858)
Net gain on disposal of a portion of the investment in 407 International Inc. (note 3)	-	115,204
Gain on dilution of investment in 407 International Inc. (note 3)	-	14,673
Net income	<b>\$ 86,528</b>	<b>\$ 202,530</b>

#### BASIC EARNINGS PER SHARE (note 1n)

Excluding Highway 407	\$ 1.97	\$ 1.79
From Highway 407	(0.25)	2.25
	<b>\$ 1.72</b>	<b>\$ 4.04</b>

#### DILUTED EARNINGS PER SHARE (note 1n)

Excluding Highway 407	\$ 1.94	\$ 1.75
From Highway 407	(0.25)	2.20
	<b>\$ 1.69</b>	<b>\$ 3.95</b>

## Notes to Consolidated Financial Statements

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## 2. ACCOUNTING FOR HIGHWAY 407 - ADDITIONAL INFORMATION (CONTINUED)

### CASH FLOWS

YEARS ENDED DECEMBER 31

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 86,528	\$ 202,530
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	44,143	42,159
Highway 407 net loss, net of consolidation eliminations	12,657	16,858
Gain on disposal of a portion of the investment in 407 International Inc., net of income taxes (note 3)	—	(121,266)
Gain on dilution of investment in 407 International Inc. (note 3)	—	(14,673)
Other	(14,766)	(7,399)
Dividends received from 407 International Inc. and equity investments	16,711	21,679
	145,273	139,888
Net change in non-cash working capital items	47,412	28,618
	192,685	168,506
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment		
Transmission assets	(69,085)	(11,310)
Other	(26,161)	(31,880)
Short-term investments	(141,752)	20,759
Acquisition of businesses and investments (note 3)	(26,744)	(104,984)
Proceeds from disposal of a portion of the investment in 407 International Inc. (note 3)	—	177,564
Income taxes related to the gain on disposal of a portion of the investment in 407 International Inc. (note 3)	(28,084)	—
Other	(11,608)	(4,528)
	(303,434)	45,621
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(4,167)	(12,007)
Increase in long-term debt	—	16,133
Net proceeds from issuance of shares	16,954	11,719
Redemption of shares (note 10e)	(23,928)	(17,331)
Dividends paid	(20,163)	(17,568)
Other	5,239	3,824
	(26,065)	(15,230)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(136,814)	198,897
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	479,180	280,283
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	342,366	479,180
Short-term investments	142,296	544
<b>CASH POSITION AT END OF YEAR</b>	\$ 484,662	\$ 479,724

## Notes to Consolidated Financial Statements

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### 3. ACQUISITIONS, DILUTION AND DISPOSAL OF BUSINESSES AND INVESTMENTS

#### ACQUISITIONS

In 2003, SNC-Lavalin completed the acquisition of Texas-based GDS Engineers, Inc., an engineering firm which specializes in the refining, chemical and petrochemical industries, and the acquisitions of Trouvin in France and Fimatec in southeastern France, engineering firms which provide services in the agrifood and industrial processes and infrastructure sectors. During 2002, the Company acquired several businesses.

The above-mentioned acquisitions have been accounted for using the purchase method and consolidated from the effective date of acquisition.

On April 29, 2002, AltaLink Consortium, in which SNC-Lavalin holds a 50% interest, acquired approximately 12,000 km of electrical transmission lines and over 250 substations in Alberta, which are rate regulated by The Alberta Energy & Utilities Board. SNC-Lavalin accounts for its investment in the AltaLink Consortium using the equity method. Also in 2002, SNC-Lavalin acquired an indirect interest of 15.5% in Malta International Airport p.l.c. (MIA), which is accounted for using the equity method. Under a 65-year concession agreement, MIA acquired the right to own and manage the Malta International Airport.

The above businesses and investments were acquired for a total cash consideration of \$26.7 million in 2003 and \$105.0 million in 2002, as described below:

	2003	2002
Current assets	\$ 14,498	\$ 8,727
Property, plant and equipment	1,026	2,980
Goodwill	21,355	5,592
Other assets	1,012	996
Liabilities assumed	(11,147)	(9,082)
Net assets of businesses acquired	26,744	9,213
Equity investments acquired	—	95,771
Total cash consideration	\$ 26,744	\$ 104,984

#### DILUTION

Effective January 1, 2002, the holder of 407 International Inc.'s subordinated convertible debenture ("Debenture") entered into an agreement with 407 International Inc. and its shareholders, whereby the holder irrevocably agreed to formally convert its Debenture into common shares of 407 International Inc. on May 6, 2004 or, subject to certain conditions, at an earlier date. This undertaking to convert into common shares is considered to be an immediate conversion of the Debenture, and effective January 1, 2002, has been accounted for as such, thereby diluting SNC-Lavalin's investment in the common shares of 407 International Inc. to 22.58% from 26.92%, and resulting in a gain of \$14.7 million.



## Notes to Consolidated Financial Statements

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### 3. ACQUISITIONS, DILUTION AND DISPOSAL OF BUSINESSES AND INVESTMENTS (CONTINUED)

#### DISPOSAL

In March 2002, SNC-Lavalin sold 45.0 million of its 175.0 million shares in its investment in 407 International Inc., resulting in a net gain of \$121.3 million after deducting \$28.1 million of income taxes which was paid in 2003. The net gain is calculated as follows:

Total cash consideration	\$ 177,564
Carrying value of shares sold	(28,214)
Gain before income taxes	149,350
Income taxes	(28,084)
Net gain on disposal of a portion of the investment in 407 International Inc.	\$ 121,266
Allocated as follows:	
Excluding Highway 407	\$ 6,062
From Highway 407	115,204
	\$ 121,266

An amount of \$6.1 million was allocated to "Excluding Highway 407" as compensation for transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital.

SNC-Lavalin's proportionate share of Highway 407, following both the dilution and the partial disposal, is 16.77%.

### 4. JOINT VENTURE ACTIVITIES

SNC-Lavalin carries out part of its activities through joint ventures. SNC-Lavalin's pro-rata share of the assets, liabilities, net income and cash flows of such joint ventures, including Highway 407, is summarized by the following financial information:

	2003	2002
<b>BALANCE SHEETS</b>		
Current assets	\$ 148,442	\$ 161,230
Long-term assets	785,478	788,538
	<u>\$ 933,920</u>	<u>\$ 949,768</u>
Current liabilities	\$ 204,435	\$ 263,152
Long-term liabilities	671,411	611,945
Pro-rata share of net assets of joint ventures	58,074	74,671
	<u>\$ 933,920</u>	<u>\$ 949,768</u>
<b>STATEMENTS OF INCOME</b>		
Revenues	\$ 416,752	\$ 442,327
Expenses	409,888	435,930
Pro-rata share of net income of joint ventures	<u>\$ 6,864</u>	<u>\$ 6,397</u>
<b>CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):</b>		
Operating activities	\$ (37,367)	\$ 6,410
Investing activities	(77,459)	(20,470)
Financing activities	67,852	(6,566)
Pro-rata share of changes in cash and cash equivalents of joint ventures	<u>\$ (46,974)</u>	<u>\$ (20,626)</u>

## Notes to Consolidated Financial Statements

### 5. CONTRACTS IN PROGRESS AND INVENTORIES

	2003	2002
Contracts in progress	\$ 269,841	\$ 330,943
Inventories	99,383	72,977
	<u>\$ 369,224</u>	<u>\$ 403,920</u>

### 6. PROPERTY, PLANT AND EQUIPMENT

	2003		2002	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
<b>EXCLUDING HIGHWAY 407</b>				
Buildings and surface installations	\$ 127,670	\$ 38,149	\$ 122,978	\$ 34,032
Machinery	95,478	73,730	96,788	68,577
Office furniture and computer equipment	244,996	205,902	231,204	183,609
Transmission assets	85,122	2,778	76,404	1,017
Other	33,458	21,476	34,962	18,626
	<u>586,724</u>	<u>342,035</u>	<u>562,336</u>	<u>305,861</u>
<b>HIGHWAY 407</b>				
Toll highway	334,507	8,600	331,671	6,843
Toll equipment	40,183	12,279	40,044	10,076
Other	10,491	2,991	9,721	2,383
	<u>385,181</u>	<u>23,870</u>	<u>381,436</u>	<u>19,302</u>
	<u>971,905</u>	<u>\$ 365,905</u>	<u>943,772</u>	<u>\$ 325,163</u>
Accumulated depreciation	365,905		325,163	
<b>NET BOOK VALUE</b>	<u>\$ 606,000</u>		<u>\$ 618,609</u>	

### 7. GOODWILL

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. As at October 31, 2003, date of the last impairment test, the fair value of each reporting unit exceeded its carrying amount, goodwill is therefore considered not to be impaired.

The following table discloses a reconciliation of the carrying amount of the Company's goodwill:

	2003			2002		
	FACILITIES AND OPERATIONS MANAGEMENT	OTHERS	TOTAL	FACILITIES AND OPERATIONS MANAGEMENT	OTHERS	TOTAL
Balance at beginning of year	\$ 20,418	\$ 45,665	\$ 66,083	\$ 20,418	\$ 40,073	\$ 60,491
Goodwill acquired during the year	—	21,355	21,355	—	5,592	5,592
Balance at end of year	<u>\$ 20,418</u>	<u>\$ 67,020</u>	<u>\$ 87,438</u>	<u>\$ 20,418</u>	<u>\$ 45,665</u>	<u>\$ 66,083</u>

## Notes to Consolidated Financial Statements

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### 8. OTHER ASSETS

	2003	2002
<b>EXCLUDING HIGHWAY 407</b>		
Equity investments	\$ 143,616	\$ 141,204
Other	30,531	26,235
	<u>174,147</u>	<u>167,439</u>
<b>HIGHWAY 407</b>		
Concession right	275,582	276,408
Restricted cash and deferred financing costs	49,455	48,059
	<u>325,037</u>	<u>324,467</u>
	<u>\$ 499,184</u>	<u>\$ 491,906</u>

### 9. LONG-TERM DEBT

	2003	2002
<b>RECOURSE (TO THE GENERAL CREDIT OF THE COMPANY):</b>		
Debentures, 7.70%, due in 2010	\$ 104,154	\$ 104,028
<b>NON-RECOURSE (SECURED ONLY BY SPECIFIC ASSETS):</b>		
<b>HIGHWAY 407</b>		
Senior bonds, 5.29% to 6.90%, due from 2006 to 2039	496,894	480,261
Junior bonds, 7.00%, due in 2010, extendible to 2040 upon the initial maturity term, at an increased annual rate of 7.125%	27,652	27,648
Subordinated bonds, 4.00% and 9.00%, due in 2006 and 2007	88,951	50,393
Subordinated term credit facility, 6.40%, due in 2004 that will be repaid with proceeds from additional subordinated bonds issued in January 2004	36,902	71,276
Other	9,119	2,445
<b>COMPANY HEADQUARTERS</b>		
9.39%, due in 2008, secured by a first ranking hypothec on the building, including a hypothec upon all rents payable in respect of such property. A balance of capital repayment of \$25.4 million is due at maturity.	33,309	34,791
<b>OTHER</b>	16,221	18,906
	<u>709,048</u>	<u>685,720</u>
<b>LESS: PORTION DUE WITHIN ONE YEAR FOR NON-RECOURSE DEBT</b>	3,816	38,824
<b>NON-RECOURSE LONG-TERM DEBT</b>	<u>705,232</u>	<u>646,896</u>
<b>TOTAL LONG-TERM DEBT</b>	<u>\$ 809,386</u>	<u>\$ 750,924</u>



## Notes to Consolidated Financial Statements

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### 9. LONG-TERM DEBT (CONTINUED)

#### RECOURSE

##### REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, upon which it may borrow at variable rates not exceeding the prime rate, up to a maximum of \$457,500,000. As at December 31, 2003, \$276,197,000 of these credit lines remained unused, the difference of \$181,303,000 was exclusively used for the issuance of letters of credit. Also, the Company has other lines of credit specifically for letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

##### DEBENTURES

The face value of the debentures totaling \$105,000,000 are repayable at maturity. These debentures are unsecured and subject to negative pledge clauses.

#### NON-RECOURSE

##### HIGHWAY 407

The senior bonds, junior bonds, subordinated bonds and subordinated term credit facility are secured under a Master Trust Indenture (the "Indenture"), which establishes common security and a set of common covenants given by 407 International Inc. for the benefit of all its lenders. The security comprises substantially all of the assets of both 407 International Inc. and of its wholly-owned subsidiaries, which primarily includes 407 ETR Concession Company Limited, including an assignment of future revenues. Pursuant to the Indenture, 407 International Inc. established cash reserves in accordance with the terms and conditions of these bonds.

In addition, SNC-Lavalin has pledged, as security for obligations under the subordinated bonds due in 2007, its interest in shares of 407 International Inc. under a Master Security Agreement. This security may be partially released after May 5, 2004, upon meeting certain conditions.

The subordinated term credit facility due in 2004 will be repaid out of additional proceeds received from subordinated bonds issued in January 2004 and as such is classified as long-term debt.

#### LONG-TERM DEBT IS DUE AS FOLLOWS:

	2004	2005	2006	2007	2008	THEREAFTER	TOTAL
Excluding Highway 407	\$ 3,249	\$ 3,378	\$ 3,183	\$ 3,202	\$ 26,895	\$ 113,777	\$ 153,684
Highway 407	567	1,532	151,163	124,140	1,173	380,943	659,518
	<u>\$ 3,816</u>	<u>\$ 4,910</u>	<u>\$ 154,346</u>	<u>\$ 127,342</u>	<u>\$ 28,068</u>	<u>\$ 494,720</u>	<u>\$ 813,202</u>

### 10. SHARE CAPITAL

#### A) AUTHORIZED

- Unlimited number of common shares
- Unlimited number of first preferred shares and second preferred shares

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

## Notes to Consolidated Financial Statements

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### 10. SHARE CAPITAL (CONTINUED)

#### B) STOCK OPTION PLANS

The Company has stock option plans under which it is authorized to grant options to non-employee directors and to certain key employees of SNC-Lavalin for the purchase of shares up to the limit permitted by law. Options may only be exercised two years after the date of the grant for a period not exceeding four years. The exercise price per option is equal to the market value of a share on the day immediately preceding the date of the grant. Options terminate upon cessation of employment, except in case of death or Company-approved retirement. In December 2003, the Company's Board of Directors decided that options will no longer be granted to non-employee directors.

The number of options varied as follows:

	2003		2002	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
Options outstanding, at beginning of year	2,021,852	\$ 17.25	2,930,806	\$ 15.97
Granted	509,700	\$ 32.36	24,250	\$ 34.01
Exercised	(1,128,138)	\$ 15.03	(865,954)	\$ 13.53
Cancelled	(20,800)	\$ 20.59	(67,250)	\$ 15.17
Options outstanding, at end of year	<u>1,382,614</u>	<u>\$ 24.58</u>	<u>2,021,852</u>	<u>\$ 17.25</u>

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plans, as at December 31, 2003.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS TERM (MONTHS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$ 10.10 to \$ 11.25	14,716	12.08	\$ 10.27	14,716	\$ 10.27
\$ 11.26 to \$ 16.93	186,000	21.79	\$ 12.90	186,000	\$ 12.90
\$ 16.94 to \$ 25.41	624,448	44.00	\$ 21.60	624,448	\$ 21.60
\$ 25.42 to \$ 36.55	557,450	62.81	\$ 32.20	27,000	\$ 27.98
	<u>1,382,614</u>	<u>48.26</u>	<u>\$ 24.58</u>	<u>852,164</u>	<u>\$ 19.71</u>

#### C) PERFORMANCE SHARE UNIT PLAN

The Company has a Performance Share Unit Plan, under which the Board of Directors, through its Human Resources Committee, grants a number of Performance Share Units (PSU) to the plan participants. The PSU vest at a rate of 20% per year in respect of each grant and on each anniversary of such grant. Under certain conditions vesting could be immediate. Vested PSU of a participant are redeemable for cash by the Company within three months of a participant's termination of employment depending on certain conditions. The redemption price of PSU is the average closing price per share on the Toronto Stock Exchange on the day of termination and the last trading day of each of the twelve weeks preceding the date of termination of employment. The compensation expense recorded for the year ended December 31, 2003 in respect of this plan was \$7.2 million (2002: \$3.3 million). As at December 31, 2003, the value of PSU outstanding which is included in "Accounts payable and accrued charges" was \$14.3 million (2002: \$8.3 million).

## Notes to Consolidated Financial Statements

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### 10. SHARE CAPITAL (CONTINUED)

#### D) PRO FORMA STOCK-BASED COMPENSATION COST

In conformity with CICA Handbook Section 3870 regarding "Stock-Based Compensation and Other Stock-Based Payments", the Company elected not to record any compensation expense for stock options granted to employees and directors. If compensation expense had been recognized using the fair-value-based method at the grant date for options granted on or after January 1, 2002, date of adoption of CICA Handbook Section 3870 recommendations, the Company's pro forma net income and earnings per share would have been as indicated below:

	AS REPORTED		PRO FORMA	
	2003	2002	2003	2002
Net income	\$ 86,528	\$ 202,530	\$ 84,799	\$ 202,505
Basic earnings per share	\$ 1.72	\$ 4.04	\$ 1.68	\$ 4.04
Diluted earnings per share	\$ 1.69	\$ 3.95	\$ 1.66	\$ 3.95

The fair value of each stock option granted was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002
Risk-free interest rate	3.96%	3.99%
Expected stock price volatility	28.59%	28.55%
Expected option life	4 years	4 years
Expected dividend yield	1.0%	1.0%

During 2003, the Company granted 509,700 stock options (2002: 24,250) to employees with a weighted average fair value of \$8.43 per stock option (2002: \$8.88).

For the pro forma presentation, the estimated fair value of the options is being amortized on a straight-line basis over the vesting period, which is two years from the date the stock options were granted.

#### E) REDEMPTION OF SHARES

In May 2003, the Board of Directors authorized the renewal of a normal course issuer bid to purchase, for cancellation, on the open market, up to 4.0 million (2002: 4.1 million) common shares within a one-year period. This program requires annual approval by the Board of Directors.

The redemptions of shares in 2003 and 2002 were as follows:

	2003	2002
Redeemed and cancelled		
Portion allocated to share capital	\$ 4,098	\$ 3,366
Portion allocated to retained earnings	19,830	13,965
	<u>\$ 23,928</u>	<u>\$ 17,331</u>
Number of shares redeemed and cancelled	<u>617,200</u>	<u>521,900</u>
Average redemption price per share	<u>\$ 38.77</u>	<u>\$ 33.21</u>



## Notes to Consolidated Financial Statements

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### 11. INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME

The following are included in the consolidated statements of income:

	2003	2002
<b>EXCLUDING HIGHWAY 407</b>		
Depreciation of property, plant and equipment and amortization of other assets	\$ 44,143	\$ 42,159
Interest revenues	\$ 9,626	\$ 9,361
Interest on long-term debt	\$ 13,436	\$ 13,845
Income from equity investments	\$ 10,011	\$ 11,350
<b>HIGHWAY 407</b>		
Depreciation of property, plant and equipment	\$ 8,882	\$ 8,706
Interest revenues	\$ 1,663	\$ 1,716
Interest on long-term debt	\$ 44,942	\$ 46,943

### 12. INCOME TAXES

Temporary differences and tax loss carry forwards which give rise to future income tax assets and liabilities, as at December 31, are as follows:

	2003	2002
<b>EXCLUDING HIGHWAY 407</b>		
Provision and reserves	\$ 31,054	\$ 22,689
Tax loss carry forwards	3,869	8,569
Contracts in progress and inventories	(20,365)	(25,758)
Future employee benefits	13,027	10,174
Property, plant and equipment	(9,050)	(6,794)
Book value in partnership in excess of tax basis	(4,314)	(6,456)
Other	2,576	3,490
	<u>16,797</u>	<u>5,914</u>
<b>HIGHWAY 407</b>		
Tax loss carry forwards	12,759	11,074
Deferred gains	1,906	1,789
Property, plant and equipment	(12,611)	(10,326)
Other	(2,054)	(2,537)
	<u>-</u>	<u>-</u>
<b>FUTURE INCOME TAX ASSET, NET</b>	<u>\$ 16,797</u>	<u>\$ 5,914</u>
<b>RECORDED AS FOLLOWS:</b>		
<b>FUTURE INCOME TAX ASSET (LIABILITY) - CURRENT <sup>(1)</sup></b>	<u>\$ 10,896</u>	<u>\$ (1,859)</u>
<b>FUTURE INCOME TAX ASSET - LONG-TERM <sup>(2)</sup></b>	<u>\$ 5,901</u>	<u>\$ 7,773</u>

<sup>(1)</sup> The current future income tax asset is reflected in the consolidated balance sheet under "Accounts receivable" and the current future income tax liability under "Accounts payable and accrued charges".

<sup>(2)</sup> The long-term future income tax asset is reflected in the consolidated balance sheet under "Other assets".

## Notes to Consolidated Financial Statements

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### 12. INCOME TAXES (CONTINUED)

The effective income tax rate in the Company's consolidated statements of income differs from the statutory Canadian tax rates mainly as a result of the following:

	2003		2002	
	AMOUNT	%	AMOUNT	%
<b>EXCLUDING HIGHWAY 407</b>				
Income tax expense at statutory Canadian rates	\$ 51,016	34.8	\$ 48,951	36.8
Increase (decrease) resulting from:				
Non-deductible expenses	2,143	1.4	2,446	1.8
Net losses not affected by tax	703	0.5	2,083	1.6
Effect of foreign tax rates	(4,840)	(3.3)	(2,469)	(1.9)
Manufacturing and processing deduction	(204)	(0.1)	(685)	(0.5)
Equity in net income of significantly influenced companies	(1,838)	(1.3)	(1,457)	(1.1)
Other	558	0.4	(5,243)	(3.9)
	<u>47,538</u>	<u>32.4</u>	<u>43,626</u>	<u>32.8</u>
<b>HIGHWAY 407</b>				
Income tax expense (benefit) at statutory Canadian rates	(4,343)	(36.4)	51,929	36.5
Increase (decrease) resulting from:				
Net losses not affected by tax	4,343	36.4	6,689	4.7
Non taxable amount from dilution and disposal of a portion of the investment in 407 International Inc.	—	—	(30,533)	(21.5)
Other	736	6.2	1,026	0.7
	<u>736</u>	<u>6.2</u>	<u>29,111</u>	<u>20.4</u>
Total income tax expense	<u>\$ 48,274</u>	<u>35.8</u>	<u>\$ 72,737</u>	<u>26.4</u>
Current income tax expense	\$ 60,933		\$ 75,094	
Future income tax benefit	(12,659)		(2,357)	
	<u>\$ 48,274</u>		<u>\$ 72,737</u>	

As at December 31, 2003, the Company's share of Highway 407's unused non-capital tax loss carryovers was \$25,603,000 available to offset Highway 407's taxable income of the next four years and \$8,807,000 available to offset its taxable income of the next five years and \$42,403,000 available to offset its taxable income of the next seven years. A future income tax net asset position related to Highway 407 will be recorded upon realization of certain conditions.

## Notes to Consolidated Financial Statements

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### 13. FINANCIAL INSTRUMENTS

#### A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of SNC-Lavalin's financial instruments are as follows:

##### SHORT-TERM FINANCIAL ASSETS AND LIABILITIES

Cash equivalents and short-term investments consist principally of high-grade financial instruments. Due to the short duration of such investments, their carrying amount approximates their fair value. For other short-term financial assets and liabilities, the carrying amounts are a reasonable estimate of the market values of these items due to their short-term nature.

##### LONG-TERM DEBT

The carrying amount and estimated fair value of the long-term debt as at December 31, 2003, was \$813,202,000 (2002: \$789,748,000) and \$884,179,000 (2002: \$858,446,000), respectively. These amounts include SNC-Lavalin's proportionate share of Highway 407's carrying amount and fair value of its long-term debt of \$659,518,000 (2002: \$632,023,000) and \$712,267,000 (2002: \$688,216,000), respectively. The fair value was determined using public quotations or the discounted cash flow method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin for debt with the same terms and conditions.

##### LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2003, SNC-Lavalin had outstanding letters of credit of \$671,269,000 (2002: \$703,240,000).

##### FORWARD FOREIGN EXCHANGE CONTRACTS

SNC-Lavalin enters into forward foreign exchange contracts with banks to hedge foreign currency denominated assets and liabilities and foreign currency transactions against foreign currency fluctuations. The maturity dates of the existing forward foreign exchange contracts do not exceed three years.

Forward foreign exchange contracts contain an inherent credit risk relating to default on obligations by the counterpart. SNC-Lavalin reduces this credit risk by entering into foreign exchange contracts with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

The fair value of forward foreign exchange contracts generally reflects the estimated amounts SNC-Lavalin would receive on settlement of favourable contracts, or be required to pay in order to terminate unfavourable outstanding contracts as at the balance sheet date. The fair values are estimated by obtaining quotes from financial institutions. The fair values as at December 31, if settlement were to occur, would be as follows:

	2003	2002
Favourable forward foreign exchange contracts	\$ 40,379	\$ 2,351
Unfavourable forward foreign exchange contracts	(12,435)	(12,989)
	<u>\$ 27,944</u>	<u>\$ (10,638)</u>

Consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin does not usually incur favourable and unfavourable settlement variances given that the forward foreign exchange contracts normally maintain their initial anticipated hedging relationships up to maturity. In the event that such relationships are not maintained up to maturity, any settlement variance resulting from a forward foreign exchange contract would be charged to income in the same period as the underlying hedged transaction. If an underlying hedged item ceases to exist prior to the settlement of the related hedges, then any realized or unrealized gains or losses on such hedges would be charged to income.

## Notes to Consolidated Financial Statements

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### 13. FINANCIAL INSTRUMENTS (CONTINUED)

#### B) CONCENTRATION OF CREDIT RISK

Concentration of credit risk with respect to accounts receivable and contracts in progress is limited due to the large number of clients comprising SNC-Lavalin's client base, and their dispersion across different business and geographic areas.

### 14. GUARANTEES

In February 2003, the CICA issued Accounting Guideline 14 (AcG-14) entitled "Disclosure of Guarantees", which identifies disclosure requirements for certain guarantees, for annual financial statements starting on or after January 1, 2003. As at December 31, 2003, SNC-Lavalin had no arrangements that met the definition of a guarantee under AcG-14, which could have a material effect, individually or collectively, on the Company's financial position, results of operations or cash flows.

### 15. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

SNC-Lavalin offers several types of defined contribution pension plans for which SNC-Lavalin contributions are recorded as expenses in the year in which they are incurred (2003: \$19,389,000 ; 2002: \$18,153,000), as well as defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

The following table sets forth the change in benefit obligation, plan assets and funded status of SNC-Lavalin's defined benefit pension plans:

	2003	2002
<b>CHANGE IN PENSION BENEFIT OBLIGATION</b>		
Benefit obligation at beginning of year	\$ 129,797	\$ 115,750
Current service cost	3,891	3,684
Interest cost	8,242	7,564
Benefits paid	(7,891)	(8,618)
Actuarial losses	2,950	11,247
Other	2,152	170
Benefit obligation at end of year	<u>\$ 139,141</u>	<u>\$ 129,797</u>
<b>CHANGE IN PLAN ASSETS</b>		
Fair value at beginning of year	\$ 102,523	\$ 104,665
Actual return on plan assets	7,591	3,550
Benefits paid	(7,891)	(8,618)
Other	5,615	2,926
Fair value at end of year	<u>\$ 107,838</u>	<u>\$ 102,523</u>
<b>FUNDED STATUS</b>		
Funded status – plan deficit	\$ (31,303)	\$ (27,274)
Unamortized net actuarial loss	16,852	15,911
Unamortized past service costs	241	5,458
Accrued benefit liability	(14,210)	(5,905)
Valuation allowance	(369)	(4,754)
Net accrued benefit liability*	<u>\$ (14,579)</u>	<u>\$ (10,659)</u>

\* The net accrued benefit liability is reflected in the consolidated balance sheet under "Other liabilities".



## Notes to Consolidated Financial Statements

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### 15. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued benefit obligation:

	2003	2002
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	6.50%	7.00%
Rate of compensation increase	3.25%	3.25%

SNC-Lavalin's net defined benefit pension plans expense is as follows:

	2003	2002
Current service cost	\$ 3,891	\$ 3,684
Interest cost	8,242	7,564
Expected return on plan assets	(6,658)	(7,207)
Curtailment*	4,266	—
Valuation allowance	(4,385)	(1,541)
Other	1,217	950
Net benefit plan expense	\$ 6,573	\$ 3,450

\* A curtailment of one of SNC-Lavalin's pension plans occurred as at December 31, 2003, due to members ceasing to accumulate credited service under the plan.

As at December 31, 2003, the obligation for other post-retirement benefits amounted to \$16,666,000 (2002: \$15,042,000) and is reflected on the consolidated balance sheet under "Other liabilities".

### 16. CONTINGENCIES

The Company and certain of its subsidiaries have been named as defendants along with other parties in a number of class action lawsuits and other actions filed in Canada and the United States by or on behalf of shareholders of Bre-X Minerals Ltd. and Bresea Resources Ltd. seeking to recover damages allegedly sustained by them as a result of the Bre-X affair. The complaints with respect to these actions generally allege that the Company and/or its subsidiaries were negligent, negligently or fraudulently misrepresented or failed to disclose information relating to Bre-X's Busang gold project, and violated US securities laws. The Company denies these allegations and is vigorously contesting these lawsuits. These lawsuits remain at an early stage, and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. However, management believes that the Company's subsidiaries have acted professionally and appropriately at all times in carrying out the work which was performed in connection with Bre-X's Busang project and, after having consulted with legal counsel, believes that the Company and its subsidiaries have strong grounds to contest these claims. The Company's insurers have been advised of these claims and are cooperating with the Company in the defense of these lawsuits subject to policy deductibles, limits, and terms and conditions.

In the normal conduct of operations, there are other pending claims by and against SNC-Lavalin. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these other litigations will not materially affect the Company's consolidated financial position or results of operations.

## Notes to Consolidated Financial Statements

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### 17. COMMITMENTS

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases amount to \$95,156,000.

The annual minimum lease payments are as follows: 2004 – \$22,742,000; 2005 – \$18,034,000; 2006 – \$14,979,000; 2007 – \$12,114,000; 2008 – \$9,960,000 and thereafter – \$17,327,000.

### 18. SEGMENT DISCLOSURES

The Company provides engineering, procurement, construction and project management services, including long-term outsourcing services, manufacturing and concessions activities. These activities are grouped by industry segment, described as follows:

- Chemicals and Petroleum segment is comprised of projects in the oil and gas sector, both upstream and downstream as well as in chemicals, biochemicals, petrochemicals and fertilizers.
- Power segment is engaged in hydroelectric, nuclear and thermal power generation, transmission and distribution projects, as well as in energy control systems.
- Infrastructure and Environment segment is engaged in a full range of activities in infrastructure projects, including airports, buildings, rail-based rapid transit systems, roads, systems implementation, water treatment and distribution, water well drilling, as well as environment projects, including impact studies, audits, analysis and testing, decontamination and waste management.
- Mining and Metallurgy segment provides a full range of services for the treatment of ores and recovery of minerals and metals. This segment also includes aluminum industry projects.
- Facilities and Operations Management segment is engaged in a full range of activities in the management of facilities, real estate and infrastructure including mission-critical facilities, ships and military camps.
- Defence segment mainly includes the manufacturing of ammunition, including the related propellants, for the military and paramilitary markets.
- Investments segment represents SNC-Lavalin's interest in AltaLink L.P., Murraylink Transmission Company PTY Ltd., Malta International Airport p.l.c., West End Dam Associates, Gazmont and Southern Electric Power Company Limited.
- Highway 407 segment, representing SNC-Lavalin's proportionate share of 407 International Inc. results, net of consolidation eliminations, including gains on dilution and disposal. The principal business of 407 International Inc. is the ownership of 407 ETR, and through 407 ETR, the operation, maintenance and management of highway 407 in the Greater Toronto area.
- "All Other" segment combines activities of several sectors, pharmaceuticals and biotechnology, agrifood, telecommunications as well as other industrial plants.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (note 1) except for imputed interest calculated on non-cash working capital position. The Company evaluates segment performance, except for Highway 407 and Investments segments, using operating income net of imputed interest which is allocated monthly to the segments at a rate of 10% per annum resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa. Corporate general and administrative costs are allocated based on the gross margin of each segment. Corporate income taxes are not allocated to segments.

## Notes to Consolidated Financial Statements

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### 18. SEGMENT DISCLOSURES (CONTINUED)

The Company evaluates the Investments segment performance using SNC-Lavalin's share of the net results of its investments based on their respective financial statements using Canadian generally accepted accounting principles.

Highway 407 segment performance is reported using net income (loss), net of consolidation eliminations. In 2002, in addition to consolidated eliminations, Highway 407 results included a gain on dilution of \$14.7 million as well as a net gain on disposal of a portion of the investment in 407 International Inc. of \$121.3 million (note 3) less \$6.1 million, representing compensation for transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital for which an offsetting positive contribution was included in "Excluding Highway 407" results.

Revenues by category reflect SNC-Lavalin's activities in Services, Packages and Concessions.

Revenues by geographical segment have been allocated according to project location.

SNC-Lavalin has numerous clients. In any one year, a given client may represent a material portion of the Company's consolidated revenues due to the size of a particular project and the progress accomplished on such project.

YEARS ENDED DECEMBER 31

	2003		2002	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
<b>EXCLUDING HIGHWAY 407</b>				
Chemicals and Petroleum	\$ 818,522	\$ 12,628	\$ 631,716	\$ 32,384
Power	607,151	37,206	1,077,354	33,499
Infrastructure and Environment	570,893	37,872	575,156	22,756
Mining and Metallurgy	239,343	33,839	168,887	13,722
Facilities and Operations Management	557,331	12,063	526,993	11,832
Defence	270,921	9,959	277,418	16,311
Investments	18,849	6,170	13,794	7,699
All Other	123,653	7,453	109,534	6,895
	<u>\$ 3,206,663</u>	<u>157,190</u>	<u>\$ 3,380,852</u>	<u>145,098</u>
Reversal of total imputed interest revenue included in segment operating income		(1,599)		(971)
Income before interest and taxes		155,591		144,127
Interest and capital taxes		(8,868)		(10,990)
Income before income taxes		146,723		133,137
Income taxes		(47,538)		(43,626)
Net income, excluding Highway 407		99,185		89,511
<b>HIGHWAY 407, NET INCOME (LOSS)</b>		<u>(12,657)</u>		<u>113,019</u>
<b>NET INCOME</b>		<u>\$ 86,528</u>		<u>\$ 202,530</u>

## Notes to Consolidated Financial Statements

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### 18. SEGMENT DISCLOSURES (CONTINUED)

Details of SNC-Lavalin's proportionate share\* of Highway 407 results for the years ended December 31, are as follows:

	2003	2002
Revenues	\$ 58,628	\$ 55,934
Gross margin, after deducting \$8,882 (2002: \$8,706) of depreciation	\$ 37,800	\$ 34,431
Administrative, marketing and other expenses	(6,489)	(5,756)
Interest and capital tax	(43,171)	(45,995)
Loss before income taxes	(11,860)	(17,320)
Income taxes	(755)	(1,017)
Net loss, before gains on disposal and dilution and consolidation eliminations	(12,615)	(18,337)
Net gain on disposal of a portion of the investment in 407 International Inc. (note 3)	-	115,204
Gain on dilution of investment in 407 International Inc. (note 3)	-	14,673
Consolidation eliminations	(42)	1,479
Net income (loss)	\$ (12,657)	\$ 113,019

\* SNC-Lavalin's proportionate share was calculated using a 22.58% participation in 407 International Inc. from January 1 to March 31, 2002, and 16.77% thereafter (refer to note 3).

AT DECEMBER 31

	2003	2002
<b>EXCLUDING HIGHWAY 407</b>		
Segment non-cash working capital position		
Chemicals and Petroleum	\$ (19,767)	\$ (41,199)
Power	(73,292)	(49,917)
Infrastructure and Environment	(13,522)	(3,909)
Mining and Metallurgy	7,862	8,132
Facilities and Operations Management	(7,798)	(12,551)
Defence	104,644	85,529
All Other	(4,367)	3,140
Total non-cash working capital position – net liabilities	(6,240)	(10,775)
Current liabilities included in segment non-cash working capital position	938,586	891,453
Cash and cash equivalents, short-term investments	484,662	479,724
Property, plant and equipment and other long-term assets	506,274	489,997
Total assets excluding Highway 407	1,923,282	1,850,399
<b>PROPORTIONATE SHARE OF HIGHWAY 407 TOTAL ASSETS</b>	<b>706,225</b>	<b>703,605</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,629,507</b>	<b>\$ 2,554,004</b>



## Notes to Consolidated Financial Statements

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### 18. SEGMENT DISCLOSURES (CONTINUED)

YEARS ENDED DECEMBER 31

	2003	2002
<b>REVENUES BY CATEGORY</b>		
Services	\$ 888,824	\$ 777,221
Packages	1,463,677	1,769,305
Concessions	912,409	885,124
	<u>\$ 3,264,910</u>	<u>\$ 3,431,650</u>

YEARS ENDED DECEMBER 31

	2003	2002
<b>REVENUES BY GEOGRAPHIC SEGMENT</b>		
Canada	\$ 1,443,609	\$ 1,622,282
United States	562,250	949,379
Asia	440,977	187,311
Africa	428,014	283,387
Europe	144,426	142,784
Latin America	129,718	119,643
Other	115,916	126,864
	<u>\$ 3,264,910</u>	<u>\$ 3,431,650</u>

AT DECEMBER 31

	2003	2002
<b>PROPERTY, PLANT, EQUIPMENT AND GOODWILL</b>		
Canada		
Excluding Highway 407	\$ 237,206	\$ 228,733
Highway 407	361,311	362,134
Outside Canada	94,921	93,825
	<u>\$ 693,438</u>	<u>\$ 684,692</u>

### 19. COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform with the presentation adopted in 2003.

## Management Team

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### OFFICE OF THE PRESIDENT

- **JACQUES LAMARRE**  
President and Chief Executive Officer
- **PIERRE ANCTIL**  
Executive Vice-President  
Investment and Facilities  
and Operations Management
- **SAMI DÉBAWI**  
Executive Vice-President  
Infrastructure and Construction
- **MARYLYNNE CAMPBELL**  
Executive Vice-President  
Infrastructure: Human Resources:  
Health, Safety and Environment  
and Aboriginal Affairs
- **PIERRE DUHAIME**  
Executive Vice-President  
Mining and Metallurgy
- **KRISH KRISHNAMOORTHY**  
Executive Vice President  
Chemicals and Petroleum
- **GILLES LARAMÉE**  
Executive Vice-President  
and Chief Financial Officer
- **NORMAND MORIN**  
Executive Vice-President  
Infrastructure and Industrial
- **MICHAEL NOVAK**  
Executive Vice-President  
Defence
- **KLAUS TRIENDEL**  
Executive Vice-President  
Power and International

### CORPORATE

- **SYLVIE BROSSARD**  
Vice-President, Taxation
- **IAN CHAPMAN**  
Vice-President, Law and  
Corporate Secretary
- **LOUIS DAGENAIS**  
Vice-President,  
Global Information Technologies &  
Project Management Systems
- **GERRY GRIGORPOULOS**  
Vice-President and Treasurer
- **MICHAEL IOFFREDI**  
Vice-President and Controller
- **GILLIAN MACCORMACK**  
Vice-President, Public Relations
- **ADAM MALKHASSIAN**  
Vice-President,  
Risk Evaluation Committee
- **VINCENT MARCOUX**  
Vice-President, Corporate  
Human Resources
- **GARY MOCKLER**  
Vice-President, Health,  
Safety and Environment
- **CHARLES PAUL**  
Vice-President, Administration
- **STÉPHANE ROY**  
Director, Investor Relations
- **JOHN WALL**  
Vice-President, Internal Audit

### CANADA

#### POWER

##### ENERGY

- **PAUL DUFRESNE** (Montreal)  
Senior Vice-President  
and General Manager

- **CINDY ANDREW** (Calgary)  
Vice-President, Transmission Projects  
SNC-Lavalin ATP Inc.
- **FRANÇOIS COUTURIER** (Montreal)  
Vice-President, Engineering
- **ESSAM FARAG** (Montreal)  
Vice-President, Small Hydro Projects
- **ALFRED HANNA** (Vancouver)  
Vice-President
- **LANCE S. HOWARD** (Montreal)  
Senior Vice-President, Turnkey Projects
- **PARVEEN KHAN** (Montreal)  
Vice-President, External Training  
and Development
- **SUZANNE LEBLANC** (Montreal)  
Vice-President, Hydroelectric Facilities
- **TONY ROSATO** (Montreal)  
Vice-President, Marketing
- **SATISH SUD** (Montreal)  
Vice-President, Power Systems

#### ENERGY CONTROL SYSTEMS

- **ALAIN POPLÉMON** (Montreal)  
Senior Vice-President and  
General Manager
- **AMEDEO CLARA** (Montreal)  
Vice-President,  
Business Development, International
- **MICHEL GHANEM** (Montreal)  
Vice-President,  
Business Development, Canada
- **PAUL MARIAMO** (Montreal)  
Vice-President, Marketing
- **JOSEPH SALIM** (Montreal)  
Vice-President, Engineering

#### NUCLEAR

- **PATRICK LAMARRE** (Toronto)  
President,  
Canatom NPM Inc.

#### THERMAL

- **DAVE PARSONS** (Vancouver)  
Vice-President and General Manager
- **NIGEL RATLEDGE** (Vancouver)  
Senior Vice-President
- **STANLEY RIDLEY** (Vancouver)  
Senior Vice-President
- **DANIEL TOKATELOFF** (Montreal)  
Director, Thermal Power

#### CHEMICALS AND PETROLEUM

- **TONY ALLEN** (Halifax)  
Senior Vice-President and  
General Manager, Offshore Oil and Gas
- **JOHN HUTCHINSON** (Calgary)  
Senior Vice-President and  
General Manager, Industrial Alberta
- **DENNY LAW** (Calgary)  
Senior Vice-President and  
General Manager, Asia
- **JOHN GAUTREY** (Sarnia)  
Director, Operations
- **DONALD MCLEOD** (Edmonton)  
Vice-President and  
General Manager, Edmonton Operations
- **JEAN NEHMÉ** (Montreal)  
Vice-President, Planning  
and Development

#### SULPHURIC ACID PLANTS

- **VULCAN MUTLER** (Toronto)  
President,  
Fenco Engineers and Constructors

#### INFRASTRUCTURE

##### AIRPORTS

- **HENRY WAKABAYASHI** (Vancouver)  
Vice-President, Airport Development

##### CONSTRUCTION

- **Socotec Inc.**
- **RÉJEAN CARRIER** (Montreal)  
Senior Vice-President, Operations
- **PAUL BEAUDRY** (Montreal)  
Vice-President,  
Finance and Administration
- **ABDELLATIF DELLAH** (Montreal)  
Senior Vice-President,  
Water Technology

- **SAMIR HABIB** (Montreal)  
Vice-President, Construction

- **HANI KEIRA** (Montreal)  
Vice-President, Engineering

- **ALAIN KOESSLER** (Montreal)  
Vice-President, Water – Operation  
and Maintenance Services

- **RICHARD MASSÉ** (Montreal)  
Senior Vice-President, Concessions

- **TIM O'MEARA** (Montreal)  
Senior Vice-President, Projects

- **KEBIR RATNANI** (Montreal)  
Vice-President, Africa

- **HARRY VARJABEDIAN** (Montreal)  
Senior Vice-President, Construction

- **SNC-Lavalin Engineers and  
Constructors Inc.**

- **GARY MOCKLER** (Toronto)  
Vice-President

#### INFRASTRUCTURE AND BUILDINGS, ENVIRONMENT, AGRICULTURE

##### Atlantic Canada

- **ALBERT WILLIAMS** (St. John's)  
Senior Vice-President  
and General Manager

- **BASSEM EID** (St. John's)  
Vice-President, Ports,  
Marine and Environment

- **ELWOOD J. REID** (St. John's)  
President,  
BAE-Newplan Group Limited

##### Quebec

- **LUC LAINEY** (Montreal)  
Senior Vice-President  
and General Manager

- **YVES CADOTTE** (Montreal)  
Vice-President, Development,  
General Engineering

- **LAURENT DE FRANÇAIS** (Montreal)  
Vice-President, Transportation Systems,  
Operations and Maintenance

- **ROBERT FERRARI** (Montreal)  
Vice-President, Development,  
Environment and Agriculture

- **AMIN KHOUDAY** (Montreal)  
Vice-President, Transportation

- **HENRI MADJAR** (Montreal)  
Vice-President, Geotechnical  
Engineering and Materials Testing

- **JACQUES SARRAILH** (Montreal)  
Vice-President,  
Environment and Agriculture

##### Ontario

- **ALBERT SWEETNAM** (Toronto)  
Senior Vice-President and  
General Manager,  
Infrastructure and Environment

- **DOUGLAS HODGINS** (Toronto)  
Vice-President and General Manager,  
General Engineering and Environment

##### Western Canada

- **ALEX GERRARD** (Winnipeg)  
Regional Vice-President, Manitoba

##### MASS TRANSIT SYSTEMS

- **JIM BURKE** (Vancouver)  
Senior Vice-President and  
General Manager, British Columbia
- **MARK LOADER** (Vancouver)  
Senior Vice-President

#### MINING AND METALLURGY

- **MICHAEL DAY** (Toronto)  
Vice-President
- **GEORGE FILACOURIDIS** (Montreal)  
Vice-President, Operations

- **JAMES GULYAS** (Vancouver)  
Vice-President, Technology

- **MARCEL PINEAU** (Montreal)  
Vice-President, Environment

- **YASH STHANKIYA** (Toronto)  
Vice-President, Operations

#### ALUMINUM

- **PIERRE RANGER** (Montreal)  
Senior Vice-President and  
General Manager

- **ROBERT MINTO** (Montreal)  
Vice-President,  
Technology and Project Development

#### FACILITIES AND OPERATIONS MANAGEMENT

##### SNC-Lavalin ProFac Inc.

- **MICHAEL WINTER** (Toronto)  
President

- **HERMANE BERNIER** (Toronto)  
Senior Vice-President, Finance

- **GILLES HÉBERT** (Montreal)  
Senior Vice-President

- **PETER LANGLAIS** (Montreal)  
Senior Vice-President

- **CHARLIE RATE** (Toronto)  
Senior Vice-President

##### Nexacor Realty Management Inc.

- **MICHEL MARCOTTE** (Montreal)  
Chief Operating Officer

- **BARRY ROSS** (Toronto)  
Vice-President, Realty Management

##### SNC-Lavalin Defence Programs Inc.

- **DON CHYNOWETH** (Calgary)  
Senior Vice-President

## Management Team

--

### DEFENCE

**SNC Technologies Inc.**  
**RENÉ BLOUIN** (Montreal)  
 Vice-President and General Manager,  
 Le Gardeur Site

**MARC DELAHAUT** (Montreal)  
 Senior Vice-President,  
 Business Development

**ANDRÉ FALARDEAU** (Montreal)  
 Vice-President, Finance

**Expro Technologies Inc.**  
**ANDRÉ BRETON** (Valleyfield)  
 Vice-President and General Manager

### INDUSTRIAL SECTORS

#### AGRIFOOD

**LUC AUDET** (Montreal)  
 Vice-President

**ALAN ROBERTS** (Winnipeg)  
 Regional Manager, Business  
 Development, Grain & Food Process  
 SNC-Lavalin Roberts, Sloane

#### INDUSTRIAL

**Quebec**

**JEAN BEAUDOIN** (Montreal)  
 Senior Vice-President  
 and General Manager

**GUY GERMAIN** (Montreal)  
 Vice-President, Project Services

**MARIO ROBALO** (Montreal)  
 Vice-President, Engineering

**ANDREW SHARP** (Montreal)  
 Vice-President, Operations

**GILBERT VILLENEUVE** (Montreal)  
 Vice-President, Construction

#### Ontario

**FEROZ ASHRAF** (Toronto)  
 Senior Vice-President and  
 General Manager, Industrial

**ROBERT STEWART** (Toronto)  
 Vice-President, Project Operations

**KEVIN WALLACE** (Toronto)  
 Director, Industrial Operations

**PHARMACEUTICALS AND  
 BIOTECHNOLOGY**

**SNC-Lavalin Pharma**

**DANIEL LACHAPELLE** (Montreal)  
 Senior Vice-President  
 and General Manager

**GRACE CHIN** (Toronto)  
 Vice-President, Validation

**JACQUES R. CÔTÉ** (Montreal)  
 Vice-President, Operations

#### TELECOMMUNICATIONS

**MARK RAUSA** (Barrie)  
 President,  
 Expertech Network Installation Inc.

### SNC-LAVALIN FINANCING

#### SNC-Lavalin Capital Inc.

**CHRISTIANE BERGEVIN** (Montreal)  
 President

**PATRICE DUVAL** (Montreal)  
 Vice-President

**DOMINIC FOREST** (Montreal)  
 Vice-President

**TRACEY LAWKO** (Toronto)  
 Vice-President

**CHANTAL ROUGERIE** (Montreal)  
 Vice-President

**ESTHER TSE** (Vancouver)  
 Vice-President

#### SNC-Lavalin Investment

**JEAN DAIGNEAULT** (Montreal)  
 Senior Vice-President,  
 Planning and Development

**JEAN-MARC ARBAUD** (Montreal)  
 Vice-President

**ANDRÉ DUFOUR** (Montreal)  
 Vice-President

**STÉPHANE MAILHOT** (Montreal)  
 Vice-President

**LOUIS ST-MAURICE** (Montreal)  
 Vice-President

#### SNC-Lavalin Risk & Insurance

**GEORGES BOUTARY** (Montreal)  
 Vice-President and General Manager

### 407 INTERNATIONAL INC.

**KENNETH WALKER** (Toronto)  
 Chief Financial Officer

### SNC-LAVALIN INTERNATIONAL INC.

**ROBERT G. BLACKBURN** (Ottawa)  
 Senior Vice-President, Government and  
 International Development Institutions

**ZOUHEIR CHEBL** (Montreal)  
 Vice-President

**RON DENOM** (Montreal)  
 Senior Vice-President, Eurasia

**KAMAL FRANCIS** (Montreal)  
 Senior Vice-President, Latin America

### ABORIGINAL AND NORTHERN AFFAIRS

**ANN DUMY** (Toronto)  
 Vice-President

### OUTSIDE CANADA

#### ALGERIA

**SNC-Lavalin Maghreb EURL**

**RAYMOND FORTIN**  
 President

#### AUSTRALIA

**SNC-Lavalin Australia Pty Ltd.**

**LAURIE BARLOW**,  
 Vice-President and General Manager

**TIM WILKINSON**  
 Vice-President, Operations

#### BELGIUM

**S.A. SNC-Lavalin Europe N.V.**  
**S.A. Coppée-Courtroy N.V.**

**GUY DAVISTER**  
 Senior Vice-President  
 and General Manager

**LUC GELDOF**  
 Vice-President, Biopharmaceuticals

**RUDI VAN LIMBERGEN**  
 Vice-President,  
 Buildings and Infrastructure

**DIRK VERVAECK**  
 Vice-President, Deputy General  
 Manager, Chemicals and Petroleum

#### CHILE

**SNC-Lavalin Chile S.A.**

**GREGORY WORTMAN**  
 Vice-President and General Manager

### CHINA

**SNC-Lavalin International Inc.**

**LUJIANG FAN**  
 Vice-President

**JIANMIN KE**  
 Vice-President

### FRANCE

**SNC-Lavalin France S.A.S**

**JEAN CLAUDE PINGAT**  
 President

**JACQUES BODREAU**  
 Vice-President, Operations Buildings

**JEAN-MICHEL CONVERT**  
 Vice-President,  
 Operations Industrial Processes

**ALAIN DEWEZ**  
 Vice-President, Major Building  
 Projects, France

**PHILIPPE DRÉMONT**  
 Manager, Marketing  
 and Commercial Sales

**JEAN-PAUL TURQUIN**  
 Vice-President, Healthcare Sector

**SNC-Lavalin International Inc.**

**JEAN-PIERRE MOUREZ**  
 Senior Vice-President, Africa

### HAITI

**Société d'expertise et  
 d'ingénierie LGL S.A.**

**BERNARD CHANCY**  
 Vice-President and General Manager

### HONDURAS

**SNC-Lavalin International Inc.**

**MERCEDES DEL CASTILLO**  
 Vice-President, Marketing,  
 Central America

### HUNGARY

**SNC-Lavalin Magyarország Kft.**

**ALAIN TENET**  
 General Manager

### INDIA

**SNC-Lavalin Inc.**

**KHALID A. BAIG**  
 Director, Energy Division

### INDONESIA

**SNC-Lavalin International Inc.**

**NICK LEE**  
 Vice-President

**PT SNC Lavalin TPS**

**J. KRISH KRISHNAMURTI**  
 Senior Vice-President

### LIBYA

**SNC-Lavalin International Inc.**

**RIADH BEN AÏSSA**  
 Senior Vice-President, Middle East

### MALAYSIA

**SNC-Lavalin International Inc.**

**ALAIN LEMAY**  
 Senior Vice-President, Asia

### PERU

**SNC-Lavalin Perú S.A.**

**FRANCISCO M. SILVA CHECA**  
 Vice-President

**Socodex Inc.**  
**MARK BERGMAN**  
 Senior Vice-President, Latin America

### PHILIPPINES

**SNC-Lavalin International Inc.**

**GERARDO GARCIA**  
 Director

### RUSSIA

**SNC-Lavalin International Inc.**

**YURI KOTLIAROV**  
 Vice-President, Russia

### SAUDI ARABIA

**SNC-Lavalin**  
**(Saudi Arabia Branch)**

**ED VOGELGESANG**  
 Vice-President and General Manager

### SOUTH AFRICA

**SNC-Lavalin South Africa**  
**(Proprietary) Limited**

**NOEL O'BRIEN**  
 Vice-President

### THAILAND

**SNC-Lavalin International Inc.**

**ANDRÉ GIROUX**  
 Vice-President,  
 Mainland South East Asia

### THE NETHERLANDS

**SNC-Lavalin Europe B.V.**

**HANS KUIKEN**  
 Director, SNC-Lavalin Capital

### UNITED ARAB EMIRATES

**SNC-Lavalin International Inc.**

**JEAN DEMERS**  
 Senior Vice-President, Middle East

### UNITED KINGDOM

**SNC-Lavalin UK Limited**

**TIM SMITH**  
 Vice-President, Copper

**JIM STEELE**  
 Vice-President, Operations

### UNITED STATES

**SNC-Lavalin America, Inc.**

**BOB GRIER** (Pittsburgh, PA)  
 Vice-President and General Manager

**SNC-Lavalin Constructors Inc.**

**JOHN GILLIS** (Seattle, WA)  
 Senior Vice-President and  
 General Manager, Thermal Division

**STEVE DANIELS** (Seattle, WA)  
 Senior Vice-President,  
 Business Development

**SNC-Lavalin GDS, Inc.**

**JAMES M. WALTERS** (Houston, TX)  
 Senior Vice-President and  
 General Manager  
 (Chemicals and Petroleum)

**SNC-Lavalin International, Inc.**

**DAVID BROWN** (Washington, DC)  
 Representative, International  
 Development

### VIETNAM

**SNC-Lavalin International Inc.**

**TRAN TUAN DUNG**  
 Manager

Member of the Management Committee

## Main Offices

--

### CANADA

#### QUEBEC

##### MONTREAL

###### HEAD OFFICE

**SNC-LAVALIN INC.**  
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**SNC-LAVALIN INC.**  
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**SNC-LAVALIN PHARMA INC.**  
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**EXPRO TECHNOLOGIES INC.**  
55 Masson Street  
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Telephone (450) 371-5520  
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**NEXACOR REALTY MANAGEMENT INC.**  
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Montreal QC H2X 1Y8  
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Fax (514) 840-8428

**SNC TECHNOLOGIES INC.**  
5 Montée des Arsenaux  
Le Gardeur QC J5Z 2P4  
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Fax (450) 585-7302

**TERRATECH**  
Suite 208  
14056 Curé-Labelle Blvd.  
Mirabel QC J5A 2E4  
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Fax (450) 979-9333

**TERRATECH**  
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#### QUEBEC CITY & AREA

**SNC-LAVALIN INC.**  
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#### RIMOUSKI

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#### THETFORD MINES

**SNC-LAVALIN INC.**  
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#### ONTARIO TORONTO

**SNC-LAVALIN ENGINEERS  
& CONSTRUCTORS INC.**  
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Fax (416) 231-5356

**SNC-LAVALIN PHARMA INC.**  
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Don Mills ON M3C 1T5  
Telephone (416) 422-4056  
Fax (416) 422-4638

**SNC-LAVALIN PROFAC INC.**  
Suite 900  
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Toronto ON M9B 6E2  
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Fax (416) 207-4702

**CANATOM NPM INC.**  
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2655 North Sheridan Way  
Mississauga ON L5K 2P8  
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Fax (905) 829-8810

**NEXACOR REALTY MANAGEMENT INC.**  
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#### KINGSTON

**SNC-LAVALIN PAE INC.**  
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#### OTTAWA

**SNC-LAVALIN DEFENCE PROGRAMS INC.**  
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Ottawa ON K1P 5V5  
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Fax (613) 567-7022

**SNC-LAVALIN INTERNATIONAL INC.**  
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Ottawa ON K1P 5V5  
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#### SARNIA

**SNC-LAVALIN ENGINEERS  
& CONSTRUCTORS INC.**  
Suite 301  
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Sarnia ON N7T 7X1  
Telephone (519) 336-0201  
Fax (519) 336-0209

#### WOODBIDGE

**407 INTERNATIONAL INC.**  
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Woodbridge ON L4H 1J1  
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#### ATLANTIC CANADA

##### ST. JOHN'S

**BAE-NEWPLAN GROUP LIMITED**  
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Mount Pearl NL A1N 5G2  
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##### HALIFAX

**SNC-LAVALIN INC.**  
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Fax (902) 468-7864

**SNC-LAVALIN INC.**  
Park Lane Terraces  
Suite 200  
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##### FREDERICTON

**SNC-LAVALIN INC.**  
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#### ALBERTA CALGARY

**SNC-LAVALIN INC.**  
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Calgary AB T2P 3H5  
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**SNC-LAVALIN ATP INC.**  
1035 – 7<sup>th</sup> Avenue SW  
Calgary AB T2P 3E9  
Telephone (403) 539-4550  
Fax (403) 539-4551

**ALTALINK MANAGEMENT LTD.**  
1035 – 7<sup>th</sup> Avenue SW  
Calgary AB T2P 3E9  
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Fax (403) 267-3454

##### EDMONTON

**SNC-LAVALIN INC.**  
608 Oxford Tower  
10235-101 Street  
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Fax (780) 426-4131

**NORTHERN SNC-LAVALIN  
CONSTRUCTORS INC.**  
8303 Roper Road  
Edmonton AB T6E 6S4  
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#### SASKATCHEWAN

**SNC-LAVALIN AUDET**  
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642, 3<sup>rd</sup> Street East  
Bruno SK S0K 0S0  
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#### MANITOBA

**SNC-LAVALIN ENGINEERS  
& CONSTRUCTORS INC.**  
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Madison Square  
Winnipeg MB R3J 3W7  
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#### BRITISH COLUMBIA

##### VANCOUVER

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**PACIFIC LIAISON AND ASSOCIATES INC.**  
Suite 950  
1075 West Georgia Street  
Vancouver BC V6E 3C9  
Telephone (604) 299-8860  
Fax (604) 299-8722

#### NORTHWEST TERRITORIES

**NISHI-KHON / SNC-LAVALIN LIMITED**  
100 Borden Drive  
9 Stanton Plaza, Box 998  
Yellowknife NT X1A 2N7  
Telephone (867) 873-6242  
Fax (416) 231-5356

#### YUKON

**KASKA / SNC-LAVALIN INC.**  
Suite 200  
304 Jarvis Street  
Whitehorse YT Y1A 2H2  
Telephone (416) 252-5311  
Fax (416) 231-5356

#### UNITED STATES

##### CONNECTICUT

**SNC TECHNOLOGIES CORP.**  
65 Sandscreen Street  
Avon CT 06001-0575  
Telephone (860) 404-0162  
Fax (860) 404-0169

##### PENNSYLVANIA

**SNC-LAVALIN AMERICA, INC.**  
6585 Penn Avenue  
Pittsburgh PA 15206  
Telephone (412) 363-9000  
Fax (412) 365-3303

##### TEXAS

**SNC-LAVALIN GDS, INC.**  
Suite 800  
9009 West Loop South  
Houston TX 77096-1719  
Telephone (713) 667-9162  
Fax (713) 667-9241

##### WASHINGTON

**SNC-LAVALIN CONSTRUCTORS, INC.**  
15011 NE 36<sup>th</sup> Street  
Redmond WA 98052  
Telephone (425) 896-4000  
Fax (425) 896-4040

##### WASHINGTON, DC

**SNC-LAVALIN INTERNATIONAL INC.**  
7<sup>th</sup> Floor  
1666 K Street NW  
Washington DC 20006  
Telephone (202) 293-7601  
Fax (202) 887-7018



## Main Offices

--

### EUROPE

#### BELGIUM

**S.A. SNC-LAVALIN EUROPE N.V.**  
**S.A. COPPÉE-COURTOY N.V.**  
 Avenue Louise 251, Boîte 16  
 B-1050 Bruxelles  
 Telephone (322) 643.15.11  
 Fax (322) 647.74.35  
 Telex B 21139 CORUBX

#### FRANCE

**SNC-LAVALIN FRANCE S.A.S.**  
 3 ter, rue d'Athènes  
 B.P. 71317  
 44312 Nantes Cedex 3  
 Telephone (33 2) 51.89.50.50  
 Fax (33 2) 51.89.50.89

**SNC-LAVALIN FRANCE S.A.S.**  
 16, cours J.B. Langlet  
 51723 Reims, Cedex  
 Telephone (33 3) 26.77.60.00  
 Fax (33 3) 26.77.61.70

**SNC-LAVALIN INTERNATIONAL INC.**  
 16, rue Christophe-Colomb  
 75008 Paris  
 Telephone (33 1) 47.20.83.88  
 Fax (33 1) 40.70.09.47

#### HUNGARY

**SNC-LAVALIN MAGYARORSZÁG KFT.**  
 H1014 Budapest  
 Színház u.5-9.1.em  
 H1255 Budapest, pf. 132  
 Telephone (36-1) 355-62-58  
 Fax (36-1) 214-02-03

#### THE NETHERLANDS

**SNC-LAVALIN EUROPE B.V.**  
 Schiphol Boulevard 169  
 1118 BG Schiphol  
 Amsterdam  
 Telephone 31 (20) 316-3393  
 Fax 31 (20) 316-3394

#### UNITED KINGDOM

**SNC-LAVALIN UK LIMITED**  
 Wettern House  
 56 Dingwall Road  
 Croydon, Surrey CR0 0XH  
 Telephone 44 (0) 208 649 8228  
 Fax 44 (0) 208 649 8338

### LATIN AMERICA

#### BRAZIL

**SNC-LAVALIN DO BRASIL LTDA.**  
 Avenida Nove de Julho, 3228 - Sala 804  
 Jardim Paulista  
 01406-000 São Paulo - SP  
 Telephone (5511) 3457-3620  
 Fax (5511) 3457-3621

#### CHILE

**SNC-LAVALIN CHILE S.A.**  
 2343 Luis Uribe  
 Nuñoa, Santiago  
 Telephone (562) 431-2800  
 Fax (562) 431-2900

#### COSTA RICA

**SNC-LAVALIN DE COSTA RICA, S.A.**  
 De la Casa de Oscar Arias  
 100 MTS Este - 250 MTS Norte  
 Rohmoser, San José  
 Telephone (506) 220-0804  
 Fax (506) 296-2744

#### HAITI

**SOCIÉTÉ D'EXPERTISE ET  
 D'INGÉNIERIE LGL S.A.**  
 29, rue Ogé  
 Boîte postale 15427 PV  
 Pétiion-Ville HT 6140  
 Telephone (509) 257-1746  
 Fax (514) 221-2049

#### HONDURAS

**SNC-LAVALIN INTERNATIONAL INC.**  
 Edificio Galerías La Paz  
 Avenida La Paz  
 Oficina No. 313-315, Piso 3  
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 Telephone (504) 220-4393  
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#### PERU

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 Edificio Polanco  
 Calle Mariano de los Santos 183  
 Piso 7  
 San Isidro, Lima 27  
 Telephone (511) 222-6504  
 Fax (511) 222-6503

#### VENEZUELA

**SOCODEC VENEZUELA C.A.**  
 Edificio Caracas Teleport  
 Oficina 704, Piso 7  
 Avenida Paseo Colón  
 Urbanización Mariperez  
 Caracas 1050  
 Telephone (58 212) 576-8752  
 Fax (58 212) 576-3258

### AFRICA

#### ALGERIA

**SNC-LAVALIN MAGHREB EURL**  
 B.P. 274  
 45, rue de la Petite Provence  
 Hydra, Alger  
 Telephone (213-21) 60.66.06  
 Fax (213-21) 48.32.20

#### CAMEROON

**SNC-LAVALIN INTERNATIONAL INC.**  
 B.P. 6111  
 Yaoundé  
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**SNC-LAVALIN INTERNATIONAL INC.**  
 Museum Hill House, 2<sup>nd</sup> Floor  
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 Fax (2542) 75.03.94

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**SNC-LAVALIN INTERNATIONAL INC.**  
 Anbasibn Malek Street  
 Garyounes Area  
 P.O. Box 9404  
 Benghazi S P I A J  
 Telephone (218 61) 22.25.242  
 Fax (218 61) 22.26.163

#### SENEGAL

**SNC-LAVALIN INC.**  
 38, Route de la Pyrotechnie  
 Mermoz, Dakar  
 Telephone (221) 824 1565  
 Fax (221) 860 1424

#### SOUTH AFRICA

**SNC-LAVALIN SOUTH AFRICA (PTY) LTD.**  
 First Floor, Block B, Cullinan Place  
 2, Cullinan Close  
 Morningside, 2057  
 Telephone (2711) 535-4900  
 Fax (2711) 884-6363

#### TUNISIA

**SNC-LAVALIN INTERNATIONAL  
 (TUNISIA) INC.**  
 4, rue Abdelhamid Ibn Badis  
 1002 Tunis  
 Telephone (216-71) 28.54.66  
 Fax (216-71) 84.17.00

### MIDDLE EAST

#### SAUDI ARABIA

**SNC-LAVALIN  
 (SAUDI ARABIA BRANCH)**  
 2<sup>nd</sup> Floor AMCDE Building  
 Prince Sultan Bin Abdulaziz Road  
 P.O. Box 30851  
 Al Khobar 31952  
 Telephone (9663) 858-0511  
 Fax (9663) 858-0661

#### TURKEY

**SNC-LAVALIN MÜHENDİSLİK  
 VE TAAHHÜT LTD. SİRKETİ**  
 Ugur Mumcu'num Sokagi 14/1  
 Gaziomanspa  
 06700 Ankara  
 Telephone (90-312) 447.62.37  
 Fax (90-312) 447.58.37

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 Fax (8610) 6505-1823

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**PT SNC LAVALIN TPS**  
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 JI.H.R. Rasuna Said  
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 Kuningan, Jakarta Selatan 12950  
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 Fax (62.21) 520-3526

#### MALAYSIA

**SNC-LAVALIN INTERNATIONAL INC.**  
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 50250 Kuala Lumpur  
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 Fax (603) 2026-7206

#### PHILIPPINES

**SNC-LAVALIN INTERNATIONAL INC.**  
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 104 H.V. Dela Costa Street  
 Salcedo Village, Makati City  
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 Fax (632) 751-3382

#### THAILAND

**SNC-LAVALIN INTERNATIONAL INC.**  
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 All Seasons Place  
 87 Wireless Road  
 Lumpini, Pathumwan  
 Bangkok 10330  
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 Fax (662) 654-0107

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 27 Ly Thai To Street  
 Hanoi  
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 Fax (844) 825-1040

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#### RUSSIA

**SNC-LAVALIN INTERNATIONAL INC.**  
 World Trade Center  
 Office 603  
 Krasnopresnenskaya Nab. 12  
 Moscow 123610  
 Telephone (7095) 258-1186  
 Fax (7095) 258-1181

### OCEANIA

#### AUSTRALIA

**SNC-LAVALIN AUSTRALIA PTY LTD.**  
 GPO Box 347  
 Level 7  
 380 Queen Street  
 Brisbane, Queensland 4001  
 Telephone (61-7) 3002-1000  
 Fax (61-7) 3221-2600

**SNC-LAVALIN AUSTRALIA PTY LTD.**  
 Level 10, 190 St-George's Terrace  
 Perth, W.A. 6000  
 Telephone (61-8) 9321-3702  
 Fax (61-8) 9321-4660

#### MURRAYLINK TRANSMISSION COMPANY PTY LTD.

GPO Box 7077  
 Riverside Centre  
 Level 11, 77 Eagle Street  
 Brisbane Qld 4000  
 Telephone (61-7) 3229-5887  
 Fax (61-7) 3211-8619

## Ten-Year Statistical Summary

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YEARS ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Revenues</b>										
Services	888.8	777.2	583.2	544.9	531.0	537.9	533.8	559.3	405.6	415.6
Packages	1,463.7	1,769.3	863.2	523.6	438.8	687.8	619.1	595.9	425.9	376.4
Concessions	912.4	885.1	880.4	671.9	301.0	281.8	260.0	206.6	197.8	169.9
	<b>3,264.9</b>	<b>3,431.6</b>	<b>2,326.8</b>	<b>1,740.4</b>	<b>1,270.8</b>	<b>1,507.5</b>	<b>1,412.9</b>	<b>1,361.8</b>	<b>1,029.3</b>	<b>961.9</b>
Gross margin	498.7	466.2	373.4	310.8	300.9	281.3	270.4	259.2	205.9	206.4
Administrative, marketing and other expenses	311.9	298.0	234.4	202.5	206.1	199.7	199.5	196.3	163.6	152.2
Interest (revenues) and capital taxes	52.0	57.0	67.8	47.1	25.1	4.0	3.4	(1.1)	(10.0)	1.3
Income before gains, income taxes and amortization of goodwill	134.8	111.2	71.2	61.2	69.7	77.6	67.5	64.0	52.3	52.9
Gain on disposal of a portion of the investment in 407 International Inc.	—	149.3	—	—	—	—	—	—	—	—
Gain on dilution of investment in 407 International Inc.	—	14.7	—	—	—	—	—	—	—	—
Income before income taxes and amortization of goodwill	134.8	275.2	71.2	61.2	69.7	77.6	67.5	64.0	52.3	52.9
Income taxes	48.3	72.7	30.2	26.8	25.8	24.6	20.9	20.0	17.7	20.0
Income before amortization of goodwill	86.5	202.5	41.0	34.4	43.9	53.0	46.6	44.0	34.6	32.9
Amortization of goodwill (net of income taxes)	—	—	14.6	10.5	7.6	7.4	6.4	7.0	3.3	5.6
Net income (loss)										
Excluding Highway 407	99.2	89.5	59.2	53.1	49.5	45.6	40.2	37.0	31.3	27.3
From Highway 407	(12.7)	113.0	(32.8)	(29.2)	(13.2)	—	—	—	—	—
	<b>86.5</b>	<b>202.5</b>	<b>26.4</b>	<b>23.9</b>	<b>36.3</b>	<b>45.6</b>	<b>40.2</b>	<b>37.0</b>	<b>31.3</b>	<b>27.3</b>
Earnings before interest, taxes, depreciation and amortization										
Excluding Highway 407	199.7	186.3	144.1	120.3	107.2	109.9	99.4	88.7	62.9	77.4
From Highway 407	40.1	196.8	45.4	31.1	18.7	—	—	—	—	—
	<b>239.8</b>	<b>383.1</b>	<b>189.5</b>	<b>151.4</b>	<b>125.9</b>	<b>109.9</b>	<b>99.4</b>	<b>88.7</b>	<b>62.9</b>	<b>77.4</b>
Return on weighted average shareholders' equity										
Excluding Highway 407	15.8 %	15.9 %	14.8 %	14.9 %	14.2 %	14.3 %	13.5 %	14.9 %	13.7 %	13.2 %
From Highway 407	(2.0) %	20.1 %	(8.2) %	(8.2) %	(3.8) %	—	—	—	—	—
	<b>13.8 %</b>	<b>36.0 %</b>	<b>6.6 %</b>	<b>6.7 %</b>	<b>10.4 %</b>	<b>14.3 %</b>	<b>13.5 %</b>	<b>14.9 %</b>	<b>13.7 %</b>	<b>13.2 %</b>

## Ten-Year Statistical Summary

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YEARS ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS,  
EXCEPT PER SHARE AMOUNTS)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Basic earnings per share										
Excluding Highway 407	1.97	1.79	1.24	1.14	1.06	0.98	0.84	0.79	0.67	0.58
From Highway 407	(0.25)	2.25	(0.69)	(0.63)	(0.28)	—	—	—	—	—
	1.72	4.04	0.55	0.51	0.78	0.98	0.84	0.79	0.67	0.58
Weighted average number of shares – basic (in thousands)	50,377	50,139	47,914	46,350	46,628	46,560	48,083	46,711	46,838	46,833
Dividends declared per share	0.43	0.37	0.29	0.25	0.24	0.21	0.20	0.17	0.14	0.11

AT DECEMBER 31

(IN MILLIONS OF DOLLARS,  
EXCEPT PER SHARE AMOUNTS)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Number of employees	10,510	14,538	8,819	8,174	6,643	6,383	6,286	6,226	4,846	4,748
Backlog	4,172.9	4,169.4	3,497.0	3,974.1	2,759.3	1,941.6	2,191.1	2,447.6	2,226.9	2,243.1
Cash, cash equivalents and short-term investments	495.8	491.6	323.2	255.8	110.3	217.6	146.5	146.0	282.5	215.2
Shareholders' equity	658.3	597.1	443.0	358.2	357.9	317.8	318.3	237.7	231.8	220.8
Book value per share	12.99	11.90	8.89	7.80	7.63	7.08	6.63	5.32	5.07	4.69
Number of outstanding common shares (in thousands)	50,668	50,157	49,813	45,924	46,883	44,871	47,999	44,661	45,714	47,031
Closing market price per share <sup>(1)</sup>	51.00	34.05	28.90	13.95	10.95	11.55	11.00	13.85	8.83	7.58

<sup>(1)</sup> Based on closing market prices listed on the Toronto Stock Exchange

## Board of Directors' Committees

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The Board of Directors has four committees, all of which are composed entirely of outside and unrelated directors.

### AUDIT COMMITTEE

This committee is responsible for assisting the Board in carrying out its responsibilities relating to the Company's accounting policies, financial reporting practices, internal controls and continuous disclosure. As part of its role, the committee reviews financial statements prior to their approval by the Board, and monitors the effectiveness of the Company's internal control procedures and information systems.

### HUMAN RESOURCES COMMITTEE

This committee reviews and monitors human resources policies and management development programs, and reviews and approves compensation policies and succession plans for senior officers.

### HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

This committee reviews SNC-Lavalin's health, safety and environmental policies and the implementation of those policies. It also reviews the effectiveness of SNC-Lavalin's responses to health, safety and environmental issues, applicable legislation and reports and recommendations relating to such issues.

### GOVERNANCE COMMITTEE

This committee monitors the Company's corporate governance practices and evolving governance standards being advocated by various organizations and makes related recommendations to the Board. It also assesses, annually, the effectiveness of the Board and recommends candidates for election as directors.

For a more detailed description of the Company's corporate governance practices and the responsibilities of the Board committees, please refer to the Management Proxy Circular, which is available from the Corporate Secretary, or on the corporate website at the address shown below.

### CORPORATE POLICIES

SNC-Lavalin has adopted comprehensive policies regarding quality, the environment, and health and safety. These policies are available on our website at [www.snclavalin.com](http://www.snclavalin.com)

## Board of Directors

--

#### JACQUELINE L. BOUTET, C.M. (1), (4)

President  
Jacqueline L. Boutet Inc.  
Montreal, Quebec  
Canada

#### ANGUS A. BRUNEAU, O.C., P.H.D. (3), (4)

Chairman of the Board  
Fortis Inc.  
St. John's, Newfoundland and Labrador  
Canada

#### JOHN E. CLEGHORN, O.C., F.C.A. (3)

Chairman of the Board  
SNC-Lavalin Group Inc.  
Montreal, Quebec  
Canada

#### JACQUES A. DROUIN (1), (4)

Managing Director,  
Canada Country Head  
Lazard Brothers & Co., Limited  
London  
United Kingdom

#### DAVID GOLDMAN (1), (2)

Chairman of the Board  
Mamma.com Inc.  
Montreal, Quebec  
Canada

#### JACQUES LAMARRE

President and  
Chief Executive Officer  
SNC-Lavalin Group Inc.  
Montreal, Quebec  
Canada

#### ALLAN F. LEACH (4)

President  
Allan Leach Consultants Inc.  
Toronto, Ontario  
Canada

#### PIERRE H. LESSARD (1), (2)

President and  
Chief Executive Officer  
Metro Inc.  
Montreal, Quebec  
Canada

#### CLAUDE MONGEAU (1), (2)

Executive Vice-President  
and Chief Financial Officer  
Canadian National  
Montreal, Quebec  
Canada

#### EDYTHE A. PARKINSON-MARCOUX (1), (3)

Company Director  
Canmore, Alberta  
Canada

#### HUGH D. SEGAL (2), (4)

President  
Institute for Research  
on Public Policy  
Montreal, Quebec  
Canada

#### LAWRENCE N. STEVENSON (2), (3)

Chief Executive Officer  
PEP Boys Inc.  
Philadelphia, Pennsylvania  
United States

#### NEIL WEBBER, PH.D. (2), (4)

President and  
Chairman of the Board  
Webber Academy Inc.  
Calgary, Alberta  
Canada

(1) Member of the Audit Committee

(2) Member of the Human Resources Committee

(3) Member of the Governance Committee

(4) Member of the Health, Safety and  
Environment Committee



## Investor and Shareholder Information

WEBSITE: WWW.SNCLAVALIN.COM

### SHARE INFORMATION

December 31, 2003:  
Listed: Toronto Stock Exchange  
Symbol: SNC  
Closing price: CAN \$51.00  
Number of outstanding common shares: 50,668,000  
Market capitalization: CAN \$2,584 million  
Dividend declared for 2003: \$0.43 per share

### CREDIT RATINGS

Standard & Poor's: BBB  
Dominion Bond Rating Service: BBB

### COMMON SHARE TRADING ACTIVITY

#### 2003

	SHARE VOLUME		HIGH		LOW
Fourth Quarter	5,436,000	\$	52.00	\$	42.99
Third Quarter	5,636,000	\$	45.00	\$	36.96
Second Quarter	6,322,000	\$	40.47	\$	33.20
First Quarter	4,978,000	\$	35.45	\$	29.02

### COMMON SHARE TRADING ACTIVITY

#### 2002

	SHARE VOLUME		HIGH		LOW
Fourth Quarter	5,463,000	\$	36.51	\$	30.01
Third Quarter	4,348,000	\$	37.25	\$	29.76
Second Quarter	8,795,000	\$	38.95	\$	29.50
First Quarter	7,042,000	\$	33.15	\$	25.26

### IMPORTANT DATES FOR 2004

	QUARTERLY REPORTS	DIVIDEND RECORD	DIVIDEND PAYMENT
Fourth Quarter 2003	March 5	March 19	April 2
First Quarter 2004	May 6	May 20	June 3
Second Quarter 2004	August 6	August 20	September 3
Third Quarter 2004	November 4	November 18	December 2

Note: Dividends are subject to approval by the Board of Directors. In exceptional circumstances, these dates may change without prior notice.

### ANNUAL MEETING

The annual shareholders' meeting will be held on Thursday May 6, 2004 at 11:00 a.m. in "Le Windsor", 1170 Peel Street, Montreal

### REGISTRAR AND TRANSFER AGENT

For information on matters such as share transfers, dividend cheques and changes of address, inquiries should be directed to: Computershare Trust Company of Canada, 1500 University Street, Suite 700, Montreal, Quebec H3A 3S8  
service@computershare.com tel: 1-800-564-6253

### HEAD OFFICE

SNC-LAVALIN GROUP INC.  
455 René-Lévesque Blvd. West  
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(514) 393-1000

### EXEMPLAIRES FRANÇAIS

Pour recevoir ce rapport  
en français, s'adresser au:  
**SERVICE DES  
RELATIONS PUBLIQUES**  
**GROUPE SNC-LAVALIN INC.**  
455, boul. René-Lévesque Ouest  
Montréal (Québec)  
H2Z 1Z3 Canada

### ADDITIONAL COPIES

To receive additional copies of this  
report in English or French,  
or to be placed on our corporate  
mailing list, please contact:  
(514) 393-1000, ext. 2121

### INVESTOR RELATIONS

Stéphane Roy  
Director, Investor Relations  
stephane.roy@snclavalin.com  
(514) 393-1000





**SNC • LAVALIN**

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